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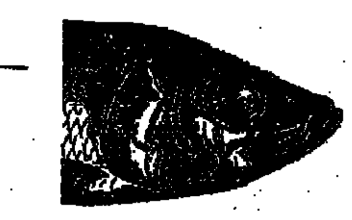

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FINANCIAL TIMES

Europe's Business Newspaper — WEDNESDAY MAY 26 1993 — D8523A

Blow for Fiat as magistrates investigate Romiti

Fiat received another serious blow with the news that Cesare Romiti, chief executive of the Italian carmaker, is being formally investigated by Milan magistrates for alleged corruption and illicit financing of political parties. Mr Romiti is the most senior Fiat management figure below Giovanni Agnelli, the chairman. Twelve Fiat executives have been arrested in the past year. Page 16; Laying down a code of honour, Page 11

Trade status renewal: The Clinton administration is close to renewing China's trading status as Most Favoured Nation, but will impose human rights conditions on Beijing after next year. Page 16; EC seeks observers at trial of Tibetans, Page 6

AT&T link-up: American Telephone & Telegraph, leading US long-distance telecoms group, joined Kokusai Denshin Denwa of Japan and Singapore Telecom to create a strong competitor in the world communications market. Page 17

Question mark over US recovery: US consumer confidence fell sharply this month to its lowest level since October, adding to doubts about the momentum of economic recovery. Page 8

Force not ruled out in Bosnia: The option of using military force to end conflict in Bosnia has not been ruled out by the international community, Thorvald Stoltenberg, the UN mediator said. Page 3

Sutherland set to head Gatt:

Peter Sutherland (left), former EC competition commissioner and now chairman of Allied Irish Banks, is expected to be named as the next director-general of the General Agreement on Tariffs and Trade on June 9. The 47-year-old Irishman will take over from Arthur Dunkel, a Swiss who has held the post since 1980. Mr Dunkel retires at the end of June. Page 5

NTT suffers 29% fall: Nippon Telegraph and Telephone, Japan's privatised telecoms group, recorded a 29 per cent fall in parent pre-tax profits to Y247.2bn ($2.2bn) for the year, after fierce domestic competition. Page 17

Guatemalan congress dissolved: President Jorge Serrano suspended the Guatemalan constitution, dissolving congress and the supreme court in what he said was an attempt to "purify the state of all its corruption". Page 7

HDTV global standard 'unlikely': The US effort to develop digital high-definition television is unlikely to produce a single global standard for cinema-quality television, EC officials said. Page 16

Russia to allow bankruptcies: The Russian government plans to force state enterprises to pay their debts or declare bankruptcy. Page 3

Mining companies merge: Amax and Cyprus Minerals, two of North America's largest mining companies, are to combine most core operations to form Cyprus-Amax which will have total revenues of about $2.8bn. Page 17

SE Banken aid still under review: The Swedish government said talks on a rescue package for Skandinaviska Enskilda Banken were continuing despite speculation that the bank might no longer need state assistance. Page 18

Iran raids Iraqi guerrilla bases: Iranian aircraft raided guerrilla bases in Iraq in retaliation for a series of attacks that have left Iran's battered oil network in disarray. Page 6

Sweden eases from recession: Sweden has turned the corner from recession but recovery will be slow, according to the Federation of Swedish Industries. Page 2

Venture capital ahead: The European venture capital industry recorded increases in investments of 1.5 per cent to Ecu4.7bn ($5.7bn) in 1992 despite recession in much of Europe. Page 4

Kurdish ceasefire shattered: Kurdish rebels in Turkey ended their two-month ceasefire when they ambushed a bus in the east of the country, killing at least 30 soldiers. Page 3

Deere and Company, tractor and heavy equipment maker, plans to cut its western European workforce by 25 per cent and to take an $80m charge to cover restructuring. Page 19

■ STOCK MARKET INDICES		
FT-SE 100:	2837.7	(+12.1)
Yield	4.03	
FT-SE Eurotrack 100	1164.13	(+7.15)
FT-A All-Share	1402.83	(+0.4%)
Nikkei	20,631.76	(+155.60)
New York: lunchtime		
Dow Jones Ind Ave	3514.14	(+6.36)
S&P Composite	448.59	(+0.59)

■ US LUNCHTIME RATES	
Federal Funds:	3 3/16%
3-mo Treas Bills: Yld	3.106%
Long Bond	101 13/16
Yield	6.976%

■ LONDON MONEY		
3-mo Interbank	6%	(same)
Liffe long gilt future:	Jun 104 3/32	(Jun 104 7/32)

■ NORTH SEA OIL (Argus)		
Brent 15-day July	$18.47	(18.36)

■ Gold		
New York Comex June	$378.7	(374.2)
London	$376.45	(376.75)

■ STERLING		
New York lunchtime:		
$	1.542	
London:		
$	1.5425	(1.535)
DM	2.5125	(same)
FFr	8.4575	(same)
SFr	2.25	(2.2575)
Y	169	(169.25)
£ Index	80.7	(80.6)

■ DOLLAR		
New York lunchtime:		
DM	1.6305	
FFr	5.489	
SFr	1.4585	
Y	109.55	
London:		
DM	1.6285	(1.6365)
FFr	5.4825	(5.51)
SFr	1.459	(1.471)
Y	109.5	(110.3)
$ Index	64.1	(64.4)
Tokyo close Y 110.56		

Austria	Sch30	Germany	DM3.30	Lux	LFr60	Qatar	QR12.00		
Bahrain	Din1.250	Greece	Dr300	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr60	Hungary	Ft 172	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lw25.00	Iceland	IKr180	Neth	Fl 3.75	Slovak Rp	KSL45		
Croatia	SLT220	India	Rs40	Nigeria	Naira45	Slovenia	HRD5700		
Cyprus	C£1.00	Israel	Shk5.90	Norway	NKr16.00	Spain	Pta200		
Czech Rp	Kcs45	Italy	L2700	Oman	OR1.50	Sweden	SKr15		
Denmark	DKr15	Jordan	JD1.50	Pakistan	Rs35	Switz	SFr3.20		
Egypt	E£4.50	Korea	Won 2500	Philippines	Pso45	Syria	S£50.00		
Finland	FM12	Kuwait	Fils.600	Poland	Zl 22,000	Tunisia	Din1.250		
France	FFr9.00	Lebanon	US$1.25	Portugal	Es215	Turkey	L7000	UAE	Dh11.00

De Klerk resists black majority rule in S Africa

By Andrew Gowers and Michael Holman in Cape Town

PRESIDENT F.W. de Klerk of South Africa in effect rejected black majority rule yesterday, insisting that the white-led National party should play a central role in a coalition government lasting into the next century.

The president's demand for indefinite power-sharing goes well beyond the understanding reached between his National party and the African National Congress that a five-year government of national unity will be formed by the main parties after the country's first multiracial elections, expected next spring.

In an interview with the Financial Times, Mr de Klerk said power-sharing between the country's main political parties should be entrenched as a permanent principle in any final constitution adopted after next year's elections. "We definitely believe that a final constitution must include the principle of power-sharing," he said. "A winner-takes-all model is the worst possible model there can be for South Africa."

His demand is likely to complicate the present negotiations in Johannesburg on South Africa's political future, as participants struggle to reach sufficient agreement to announce an election date and the formation of a Transitional Executive Council, perhaps as early as next week.

The talks met a further snag yesterday when the radical Pan-Africanist Congress called for their suspension after nearly 50 of its members were arrested. "The process is now hanging by a very thin thread," Mr Cyril Ramaphosa, chief ANC negotiator, told delegates.

Mr de Klerk made clear that "fundamental differences" on power sharing between the government and Mr Nelson Mandela's ANC had still to be resolved.

The president denied that he was seeking formal veto powers for the National party in any new government, but argued that South Africa would in future have "to be governed on the basis of consensus on fundamental issues between the main role players".

That might, he said, involve the creation of an executive committee comprising party leaders, with the chairmanship rotating between them, to deal with "fundamental principles". He implied that real power should lie with that body, with a future president acting as head of state, not of government.

"The obvious thing would be for the main role players, immediately after an election, to work out a policy framework for the next five years . . . almost the

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Firm hand on the tiller, Page 14

Share dealing allegations force head of German engineering workers to resign

Steinkühler quits as union leader

By Quentin Peel in Bonn and David Waller in Frankfurt

MR Franz Steinkühler yesterday gave up the fight to keep his position as Germany's most powerful trade union leader when he resigned as head of more than 3m engineering workers over allegations of insider share dealing.

His decision was greeted with relief by Germany's financial establishment, fearful of the international reaction to evidence of unrestricted insider trading on German stock exchanges, but with regret in the trade union movement.

The resignation was announced in a brief statement read out by a spokesman at the Frankfurt headquarters of IG Metall, Germany's largest trade union.

■ Steinkühler's exit leaves German left in disarray Page 2

"I am going, but IG Metall will remain," Mr Steinkühler declared, acknowledging his "infinite sorrow" at quitting when times were already difficult for the union, and likely to get even more difficult "because of my own mistakes".

Insider dealing is not legally restricted in Germany, but Mr Theo Waigel, the finance minister, has promised to draft legislation by the summer which will include both fines and jail terms for offenders.

The move represented a sudden change of heart from Monday, when the engineers' leader, a popular and charismatic figure throughout the labour movement, offered his resignation – but also appealed for support from his colleagues to stay on.

Mr Klaus Zwickel, his deputy and probable successor, insisted that the union executive did not call for his resignation, and Mr Steinkühler said his decision was taken "against the advice and pleas of many colleagues".

Earlier, the union leader had admitted speculating in the shares of companies connected to Daimler-Benz, Germany's largest industrial group, on whose supervisory board he sits. He admitted buying shares in Fokker, the Dutch aircraft manufacturer, shortly before its takeover by Daimler's Deutsche Aerospace subsidiary was confirmed.

He also confirmed that he had bought almost DM1m worth of shares in Mercedes AG Holding, the Daimler holding company, on the eve of a decision to swap its shares for those of Daimler, causing a sharp jump in the share price.

"His resignation is a logical consequence of what he has done," said Mr Rüdiger von Rosen, chief executive of Deutsche Börse, the German stock exchange. "This does not mean he was guilty of insider trading. But it is clearly wrong for people in this position to speculate in the shares of companies with which they are associated as members of supervisory boards."

Mr Steinkühler had already announced his intention to suspend his membership of the Daimler supervisory board until the outcome of an inquiry by the insider commission of the Frankfurt stock exchange, which he has asked to investigate his own case in particular.

Mr Steinkühler's resignation is likely to undermine the authority of IG Metall, already under fire for leading an abortive strike by steel and engineering workers in east Germany.

Franz Steinkühler leaves the headquarters of the IG Metall union after resigning over his share dealings

Balladur moves to create more jobs

By David Buchan in Paris

MR EDOUARD BALLADUR, the French prime minister, yesterday acknowledged a change of emphasis in economic policy, confirming measures to promote economic recovery and to fight unemployment through a record FFr40bn ($7.25bn) state loan, of which an extra FFr10bn would be spent on preserving jobs.

Mr Balladur acknowledged that this constituted a change in tack from his May 10 budget, which focused largely on raising taxes and cutting public spending with the aim of keeping this year's budget deficit to FFr316bn. But he told parliament that the country's economic plight was "more difficult than we could have foreseen even a few weeks ago".

Members of Mr Balladur's centre-right coalition acknowledged he had shifted economic gears in only a few weeks.

"The government has no doubt realised it lacked audacity because it is now proposing to play its 'joker' card – that is a large national bond issue," Mr Philippe Auberger, parliamentary budget chief and a member of Mr Balladur's Gaullist party, said.

The new job-creating measures will involve increasing the number of places in work schemes by 200,000 to a total of 650,000, as well as providing more financial incentives for employers to take on the young as apprentices and to hire the long-term unem-

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Major outlines UK strategy on bigger EC

By Philip Stephens, Political Editor, in London

A post-Maastricht strategy for the UK to capitalise on the shift in the balance of power in the European Community that will follow enlargement has been mapped out by Mr John Major.

In an interview with the Financial Times, the prime minister said speedy entry into the Community of Austria, Sweden, Finland and Norway was "pivotal" to Britain's agenda in the approach to the 1996 inter-governmental conference.

Mr Major confirmed there was no early prospect of sterling's return to the European exchange rate mechanism. But he refused to rule out the prospect entirely over the longer term.

He was equally reluctant to translate his deep scepticism about the value of granting independence to the Bank of England into a categorical statement that monetary policy would remain indefinitely in the hands of the Treasury.

Mr Major said the combination of enlargement and the popular mood of disenchantment across

Continued on Page 16
The man in the middle, Page 15

Volkswagen chief says Lopez made the first approach

By Christopher Parkes and Kevin Done in Wolfsburg

MR José Ignacio Lopez de Arriortúa, General Motors' former global purchasing chief at the centre of a storm over alleged industrial espionage, made the first approach to Volkswagen where he is now production and purchasing director, according to Mr Ferdinand Piëch, VW's chairman.

"He got in touch with me. I did not try to woo him," Mr Piëch said in an interview with the Financial Times yesterday. He said Mr Lopez approached VW before Christmas last year.

"We got to know each other and discovered we thought in similar ways," Mr Piëch said. They shared a common commitment to developing and defending Europe's industrial base and making it a world leader. Mr Lopez eventually left GM and joined VW in mid-March.

Mr Lopez's move had nothing to do with money, his new boss said yesterday: "He has less income now than he had before."

The timing and the nature of the contacts between the two men, about six months after Mr Lopez was promoted to the top ranks of GM in the US, suggest that Mr Lopez was planning his defection over an extended period, and argues against the suggestion that he was lured away by Mr Piëch.

Mr Lopez was followed by seven former GM colleagues who are due to appear in court in Frankfurt today to challenge a legal attempt by the US group to prevent them continuing to work for VW for up to one year.

The court case is one of several launched by GM and Adam Opel, its German subsidiary, based on their belief that Mr Lopez and his team took secret GM documents with them when they left Detroit.

Mr Piëch disclosed yesterday that VW had already successfully fought several legal skirmishes with GM. "We have four rounds behind us and VW has made no mistakes," he said.

Refusing to give details, he said it was not company policy to talk about legal matters publicly.

The VW chairman, who on Monday issued a statement supporting Mr Lopez, said any possible legal charges would be answered in court.

Mr Piëch dismissed suggestions that VW's hiring of Mr Lopez and his seven colleagues from GM had caused dismay in German industry.

VW reduces losses, Page 17

CONTENTS

EC close to agreement on works councils

By David Gardner in Brussels

ELEVEN European Community states are close to agreement on setting up mandatory works councils in large trans-European companies, amid signs that Britain's obdurate opposition to this extension of workers' rights may be softening.

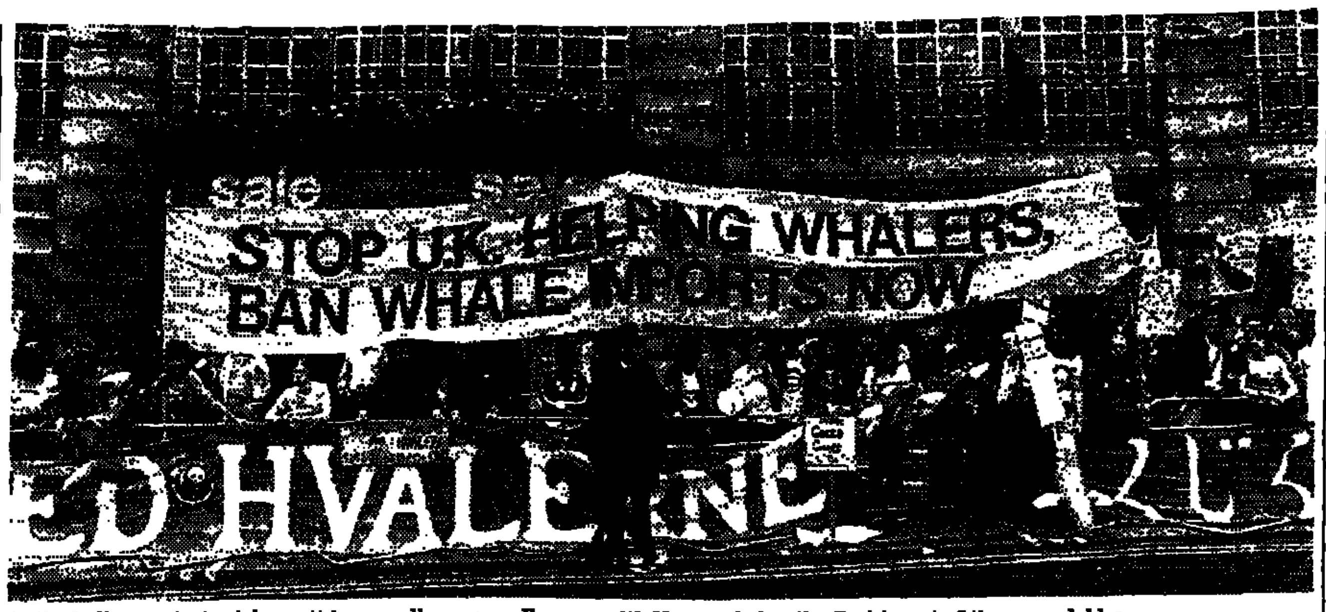
The controversial draft directive, stalled for over two years, will be discussed by labour and social affairs ministers next Tuesday in Luxembourg.

The Danish presidency of the EC, while working for an agreement including Britain, has set as its minimum goal a consensus among the remaining 11. This would allow them to implement the directive once the Maastricht treaty, and its social protocol from which the UK is exempt, is ratified.

Britain faces the dilemma of fighting to dilute the directive, or see it come into force without having shaped it. If the latter happened, British companies would be among those most affected, as there are more than 100 in continental Europe falling under the proposed rules. British multinationals in Europe would also face pressure to introduce in the UK the consultation procedures they would be obliged to follow on the continent.

The rules would oblige companies employing more than 1,000 workers in more than one member state, and with more than 100 employees in at least two of them, to set up elected works councils, which would have to be consulted on jobs changes, new technology, investment and relocation plans, and "any proposal creating serious consequences for workers' interests". Although the directive has been made more flexible, with, for instance, provision for workers and employers to make their own arrangements, the UK flatly opposes making consultation obligatory.

Yet Britain appears to be keeping its options open, playing a full negotiating role in recent meetings to discuss the directive, according to the latest compromise document.



Anti-whaling protests: A boycott is spreading across Europe, with Norway being the first target of the green lobby

Norway boycotted over whaling

By Karen Fossli in Oslo

TWO supermarket groups, including Germany's Tengelmann – said to be Europe's biggest food chain – have announced a boycott of Norwegian food and fish products in protest against the Oslo government's decision to resume commercial whaling.

Norway decided last week that it would allow the killing of 296 minke whales in defiance of an eight-year ban on whaling by the International Whaling Commission. Of the total, 160 whales were allotted as commercial catch; the balance for scientific research.

Tengelmann, which has 4,500 food stores, imports Norwegian food and fish products worth an estimated NKr100m ($14.3m) annually.

Total German imports of Norwegian products, excluding petroleum, reached NKr15.9bn in 1992. Of the total, NKr1.4bn represents food products of which NKr1.26bn is fish, mainly salmon. An executive with the Düsseldorf arm of the Norwegian Trade Council said Tengelmann stressed it would stick to its boycott decision until Norway conformed to the IWC ban.

Tengelmann banned imports of food products from Iceland in 1988 when it resumed commercial whaling and has long been known for its green policies. The trade council said that Nordsaade, a member of the Unilever group, had also decided to stop buying Norwegian products from all companies and suppliers which had either direct or indirect connections to Norwegian whalers.

The Norwegian government reiterated the argument yesterday that its decision to resume whaling is based on scientific research and responsible management of marine resources.

Meanwhile, a spokesman for the Norwegian fisheries directorate, which is responsible for assigning individual whale quotas, said yesterday that 32 boats had qualified for commercial whaling permits, although he added that not all of the whalers had decided to resume the commercial hunt this year.

They have until June 4 to respond.

Steinkühler's exit leaves left in disarray

By Quentin Peel in Bonn and David Waller in Frankfurt

THE FALL of Mr Franz Steinkühler, the one real star in the German trade union firmament, was in the end entirely self-inflicted.

Few of his senior colleagues in the mighty IG Metall, the 3.3m strong engineering workers union, really wanted him to go. He was an outstanding union leader, a tough negotiator, a good speaker, and an instinctive politician.

He quit yesterday "against the advice and the requests of many colleagues", in his own words. And yet few doubted that he had to go.

But then his offence was entirely self-inflicted too: to speculate in the shares of companies controlled by Daimler-Benz, the industrial giant on whose supervisory board he sits. It was the fact of his share-dealing – to the tune of more than DM1m (£300,000) – rather than the question of whether he had insider knowledge, which finally destroyed him in the eyes of his peers.

His loyal spokesman, Mr Jörg Barczynski, admitted on Monday night: "There is fundamental criticism of his share-dealing from all concerned. But then there are two factions within the union.

"One group says he must resign regardless. The second group, which is much larger, says we did not elect him as a good share-dealer. We elected him for his strength and experience as a union leader."

In spite of such loyalty, Mr Steinkühler decided yesterday to quit, and his resignation may help to limit the damage to his union in particular, and the trade union movement in general. What is certain is that the whole affair is another devastating blow to the left in German politics, still reeling from the resignation of Mr Björn Engholm, leader of the Social Democrats (SPD), only three weeks ago.

It also raises questions about the exploitation of the supervisory board system in German companies, and has finally focused attention on the absence of any legal control on insider dealing in Germany. That must raise the pressure for early legislation, promised by the government but proving very slow in the drafting.

Mr Engholm and Mr Steinkühler were probably the two most popular single figures on the left, and their departure leaves the SPD and its union supporters in serious disarray, in the run-up to a mammoth election year in 1994 (with no fewer than 19 separate national, state, local government and European elections).

Mr Steinkühler's most likely successor is Mr Klaus Zwickel, the current number two, and the union's main wages expert. He is a safe pair of hands, but a good deal less inspiring than his chief. That may well mean a less militant IG Metall, at least for the immediate future.

Perhaps more damaging for the union has been the fact and outcome of the strikes in east Germany, where no one has been the winner of a largely pointless dispute. The union has been forced to concede a two-year extension of the process of wage equalisation with the west, and, more seriously, the option for any company to plead extraordinary circumstances and re-negotiate a plant-level deal. Given the pressure for similar plant-level bargaining in the west, it could be the thin end of the wedge.

The supervisory board system in German companies, although not for the first time seen as a source of insider dealing, is too well established to be questioned. The fact that Mr Steinkühler has quit, and not tried to stay in office, will also counter those who challenge the wisdom of putting trade unionists on the board.

As for the pressure for legislation against insider dealing, it has not yet had much effect on the Finance Ministry. A draft law, including stiff fines and the ultimate penalty of jail, is promised by the summer. It is unlikely to become full law until well into 1994.

One other consequence is that the affair may make companies like Daimler-Benz more careful about the handling of price-sensitive information.

Swedish economy turns the corner

SWEDEN passed the low point of recession in the first quarter but recovery will be slow, the Federation of Swedish Industries said yesterday, writes Christopher Brown-Humes in Stockholm.

It said the weaker krona had given a powerful boost to the competitiveness of Swedish industry, but warned that both domestic and overseas markets were weak. It expects GNP to fall 1.7 per cent this year, the third successive year of economic decline.

It also said unemployment would continue to rise, warning that a further 40,000 jobs could be cut this year.

Waigel seeks budget savings

The German federal government, facing sagging revenues and soaring unemployment costs, will try to trim about DM20bn ($12.2bn) from its 1994 budget, government sources said yesterday, AP-DJ reports from Bonn.

German Finance Minister Theo Waigel announced over the weekend his intention to seek new savings in the "double digits of billions of marks," and sources said he narrowed this target in yesterday's talks with Chancellor Helmut Kohl and other leaders of the ruling coalition.

The savings plan is expected to be tied up by mid-July, when the German cabinet is to present its 1994 draft budget.

Commission trims growth forecast

The European Commission is in the process of cutting its forecast that European Community economies will grow at an average rate of 1.8 per cent next year, an official said, Reuter reports from Brussels.

"We expect that it will be above 1 per cent, but only just," the official said, adding that the Commission had also begun pushing back the timing of the expected economic upturn from the second half of this year to the first half of 1994.

Danish bank chief says EMS 'collapsed'

THE European monetary system has, in effect, broken down by letting countries win competitive advantage by devaluing currencies, said Mr Erik Hoffmeyer, the Danish Central Bank chief, Reuter reports from Copenhagen.

"I have no reservations about saying that the currency co-operation has collapsed in the past nine months," he told a Danish business seminar.

Britain and Italy pulled their currencies out of the exchange rate mechanism last autumn, and Ireland, Spain and Portugal have been forced to devalue within the mechanism.

"We have seen a series of major devaluations which were completely out of line with the reasonable pattern in a fixed exchange rate co-operation," Mr Hoffmeyer said.

He emphasised that the point of the EMS was to avoid competitive devaluations. "This has not been the case. What we have seen have been irresponsible exchange-rate changes."

Mr Hoffmeyer said market confidence in the EMS would not return until the pound and lira had come back to the grid.

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West's new line 'boosts Serb militants'

By Laura Silber and Kerin Hope in Belgrade

WHILE Serb leaders celebrate what they believe is the international go-ahead for the division of Bosnia, there is a fear in Belgrade that the Washington agreement could undermine the stability of Serbia and Montenegro.

By implying that the Bosnian Serbs and their Croat counterparts will be allowed to hold on to their territorial gains, the agreement appears to signal to the Serbs that aggression will be rewarded. "It's the opposite of containment and it's the opposite of a durable peace. It enhances the position of violent extremists," said a western diplomat.

There is a particular concern that the position of Serb extremists such as Mr Vojislav Seselj, a parliamentary deputy who also commands a paramilitary unit, will be bolstered.

Mr Seselj, a vociferous opponent of the Vance-Owen peace plan, praised the Washington declaration as "the first sober public statement by the west."

Described by the US as a war criminal, Mr Seselj has called not only for the expulsion of all non-Serbs from Serbia but also for the prosecution of "politically suspect" Serbs, who have voiced opposition to the Bosnian war.

"The agreement cuts the rug out from under potential democratic forces. It creates an unstable Serbia," one diplomat said.

If the trend towards extremism is allowed to continue, Mr Seselj and his ultra-nationalist allies, like General Ratko Mladic, the Bosnian Serb commander, will start to represent the political mainstream, he added.

The ultra-nationalists' hand has been strengthened in Serbia by their defiance of western pressure, even under the threat of military intervention against Bosnian Serb forces.

President Slobodan Milosevic of Serbia has also won a degree of popular support for his pledge not to yield to the west. He was quick to refuse the deployment of UN monitors on Serbia's border with Bosnia on the grounds that Serb and Yugoslav leaders could prevent the supply of weapons to Serb-held Bosnian territories.

Nevertheless, in a bid to get stepped-up UN sanctions eased, Mr Milosevic this month showed a more conciliatory attitude by exerting pressure on Mr Karadzic to support the Vance-Owen peace plan. Yesterday he denied the Washington agreement handed the Serbs victory.

Continued enforcement of sanctions will now become the west's most important lever. Although sanctions have devastated the economy, they failed to slow the Serbian onslaught in Bosnia. Worsening economic conditions may increase the likelihood of unrest. But with scant popular support for the democratic opposition, Mr Seselj and his supporters could benefit most.

Serb leaders have also rejected the proposed deployment of international monitors in the southern province of Kosovo, where ethnic Albanians make up 90 per cent of the 2m population.

If the Serbs are correct in believing that the Washington declaration condones the establishment through violence of national states, the restive Albanian majority in Kovoso may be tempted to make a bid for independence.

"This agreement strengthens the nationalists and the extremists. Giving in to those who divided up territory will encourage the Albanians. I'm afraid it's a signal for the next flashpoint, Kosovo," said Mrs Vesna Pesic, an opposition leader.

West may yet use force, says Stoltenberg

By Robert Mauthner

MR Thorvald Stoltenberg, the United Nations mediator, said yesterday that the option of using military force to end the conflict in Bosnia had not been abandoned by the international community, though other means to achieve peace would be pursued first.

Speaking in Zagreb at the start of a tour of the war zones in the former Yugoslavia, Mr Stoltenberg said it was wrong to assume, from the new containment plan adopted by the western allies and Russia, that the use of force to make the Bosnian Serbs give up their conquered territory had been ruled out.

Meanwhile, Lord Owen, the European Community's representative on the two-man international mediating team, remained silent about the future of the Bosnian peace plan which he and Mr Cyrus Vance drew up.

Lord Owen's refusal to comment on the new international strategy to deal with the Bosnian crisis, which many observers see as undermining the Vance-Owen plan, has fuelled speculation that he might relinquish his role as mediator.

However, diplomats in Geneva, venue of the Yugoslav peace conference, said they saw no reason for Lord Owen to abandon his task since the EC continued to back the Vance-Owen plan for a political settlement in Bosnia.

Mr Malcolm Rifkind, the British defence secretary, said yesterday that what the west had done was to reverse its priorities, placing efforts to end the fighting ahead of an immediate political settlement.

"Essentially we still have exactly the same destination, but we may be using a different route to get there," he said.

Meanwhile, Turkey said the new plan adopted by the US, Russia, France, Britain and Spain was a "waste of time."

"The plan proposes no measures to stop the side which is determined to continue its attacks and which has challenged the world," the Turkish foreign ministry said.

UK defence secretary Malcolm Rifkind facing the press at Nato headquarters in Brussels yesterday

Nato backs Vance-Owen

By David White, Defence Correspondent, in Brussels

NATO ministers yesterday tried to keep hopes alive for the Vance-Owen peace plan in Bosnia, emphasising that the "safe areas" proposal agreed in Washington at the weekend should be seen as a means to that end and not a substitute.

With the main allies reluctant to commit extra troops to the safe areas, the alliance is considering a limited role in implementing the Washington plan. Defence ministers made clear that Nato saw its contribution as essentially restricted to co-ordinating air cover.

The US, Britain, Turkey and the Netherlands, which already have aircraft enforcing the no-fly zone, indicated they would be prepared to extend their operations. France, absent from yesterday's talks at Nato headquarters, was also expected to participate.

Mr Les Aspin, US defence secretary, attending his first Nato meeting, suggested ground forces could also draw on Nato command and control expertise. However, it was not clear where these forces would come from. Ministers said no plans could be drawn up before a UN Security Council resolution was passed defining the safe area proposal.

The plan is expected to require several thousand troops in addition to the 9,000 already in Bosnia.

Massacre shatters Kurdish ceasefire

By John Murray Brown in Istanbul

KURDISH rebels in Turkey yesterday shattered a fragile ceasefire, killing 30 soldiers in an attack on a bus near the eastern city of Bingol.

The attack ends any hope for an early end to the eight-year conflict. The acting prime minister, Mr Erdal Inonu, immediately suspended a government decree extending a partial amnesty to the Kurdish Workers' Party (PKK) rebels.

The attack, on Monday evening, was the first rebel attack on government forces since the PKK leader, Mr Abdullah Ocalan, declared a unilateral ceasefire on March 20.

The rebels forced a bus carrying soldiers to stop at a roadblock, ordered the troops off the bus and shot them, the regional governor's office in Diyarbakir said. Another 15 people were abducted, including eight soldiers.

Turkish commandos yesterday recovered the bodies of 30 soldiers and four civilians from a ravine. The bus and five other vehicles were set on fire by the rebels.

On Monday, Turkey's newly elected President Suleyman Demirel convened a special meeting of the National Security Council to approve a decree offering reduced sentences to rebels charged with direct involvement in the bloodshed, and a pardon for rebels who had fled to the mountains but had not been involved in attacks. Death sentences for those already charged were to be commuted to life imprisonment.

Mr Inonu's Social Democratic Populist party (SHP) has been urging its senior coalition partner, the True Path party (DYP), to announce reforms in the wake of the rebel ceasefire.

Mr Inonu said yesterday the decree had only been suspended.

However, the renewed rebel violence is expected to strengthen cabinet hardliners who suspected the ceasefire was a ploy.

Moscow to pull plug on state enterprises

By Leyla Boulton in Moscow

THE Russian government plans to force state enterprises to pay their debts or declare bankruptcy, according to two radical ministers.

Mr Anatoly Chubais, privatisation minister, said his Committee for the Management of State Property had been entrusted with the task of "launching bankruptcies" following the adoption by parliament of legislation allowing companies to go bankrupt.

He said, however, that the actual closing down or restructuring of unprofitable enterprises would be initiated by creditors.

At the same time, Mr Boris Fyodorov, the finance minister, yesterday blocked off the traditional escape route for inefficient enterprises when he announced that the central bank had agreed to stop creating money to cover the debts between companies.

That promise was contained in a statement of intent to the International Monetary Fund, signed on Saturday by Prime Minister Viktor Chernomyrdin, and Mr Viktor Gerashchenko, the central bank chief.

The central bank's printing of money has fuelled inflation and weakened incentives for enterprises to become more efficient. Mr Fyodorov said additional measures would soon be approved by the government to tighten credit discipline and speed up slow bank transfers – which have also contributed to the debt crisis.

He said not one enterprise would be allowed to apply for subsidies from his credit commission unless it provided a bank record of its hard currency holding. He said Russian enterprises had $9bn sitting in bank accounts which they should be encouraged to spend rather than applying to the state for help.

It remains to be seen whether the central bank and the government will keep their promises, aimed at unlocking $3bn in new IMF loans this summer. A similar statement of intent signed last year by Mr Yegor Gaidar, the former prime minister, secured a first $1bn loan but its contents were not implemented.

Polish coalition feels pressure over budget

By Christopher Bobinski in Warsaw

POLAND'S six-party coalition government faced mounting pressure yesterday after Ms Hanna Suchocka, the prime minister, said that she was not prepared to amend this year's budget.

The former Communist SLD group has demanded budget changes, in the form of public sector pay increases, in exchange for its 60 votes which could save the government in a no-confidence motion on Friday. The motion is being put forward by the disgruntled Solidarity union group.

The government, however, is bound to its budget targets, which include a deficit fixed at 5 per cent of GDP in exchange for a $660m (£428.5m) stand-by loan from the International Monetary Fund. The collapse of this agreement could lead to the cancellation by western governments of promised cuts in Poland's debt next year.

The government can count on the support of only around 183 deputies in the 460-strong chamber, where a disunited opposition controls 258 seats. The SLD, which has already voted with the government on its privatisation plans, now needs the concessions on the budget to explain to its increasingly confused supporters why it wants to keep the present cabinet in power.

González faces struggle

By Peter Bruce in Madrid

SPANISH ELECTIONS

THE BANK of Spain cut its official intervention rate from 11.5 per cent to 11.25 per cent yesterday, bringing relief to the Spanish economy, but little joy to Prime Minister Felipe González, who late on Monday night took a hammering in a televised election debate with his inexperienced conservative challenger, Mr José María Aznar.

The debate, watched by up to 11m people, was the first ever in Spain and is likely to have seriously damaged Mr González's chances of holding office after the elections on June 6. Mr González's socialists and Mr Aznar's Partido Popular (People's party) are neck-and-neck in the polls.

Mr Aznar scored point after point against his seemingly poorly prepared opponent, and most commentators yesterday credited him with having "won" the debate, although one extensive listener poll for a nationwide breakfast radio show declared for Mr González.

While that may mean that voters outside the big cities viewed the debate differently from the country's intellectuals, Mr Aznar, almost without interference, was able to attack Mr Gonzalez's two open wounds: the economic recession – with 3.3m people unemployed and three peseta devaluations in nine months – and corruption allegations against the ruling party.

Mr González tried to counter by insisting that life in Spain had improved immeasurably since the socialists came to power in 1982, but he made little impact. Mr Aznar focused attention on the government's poor economic record in its third term of office and sidestepped all of the prime minister's attempts to make him detail his economic policies. The prime minister has never before looked so vulnerable in public.

The two men will meet for one more TV debate next Monday. It is likely that Mr González's advisers will be working on his basic television performance techniques before then.

González: took a hammering in the televised election debate

The prime minister, who considers himself a natural communicator, believes that such theatrical skills are a waste of time – such that he barely even looked at the camera on Monday night. Mr Aznar, however, glued himself to it, his only weakness being a perhaps too confident air.

The socialists, meanwhile, were thrown into further choas in the Principality of Asturias just before the debate when the region's socialist leader, Mr Juan Luis Rodriguez-Vigil resigned, the victim of a massive confidence trick.

Hoping to boost socialist chances in the region on June 6, Mr Rodriguez-Vigil hurriedly announced last week that his government had secured a Saudi-led \$3bn (£1.9bn) investment in a new oil refinery. But the region had been negotiating with a middleman who has since vanished and the Saudi investors say they know nothing about the refinery.

Analysts in Madrid said yesterday they did not believe the quarter point cut in the Bank of Spain's benchmark rate would have much effect on the election result.

It is the second cut this month – the first, of one-and-a-half points, brought official rates down from 13 per cent to 11.5 per cent after the 8 per cent devaluation of the peseta on May 13.

A Spanish editor becomes bad news for the government

Enemy of the people-in-power

By Peter Bruce

THE MAN most responsible for forcing Prime Minister Felipe González of Spain to call a snap general election on June 6, and for the fact that he may lose it, is a journalist, not a politician.

Mr Pedro J. Ramirez, an obsessed, nimble-brained self-publicist, has been a thorn in the side of the Socialist government for years. He sees Mr González as a silver-tongued constrictor who has wound himself around the great institutions of state and crushed the beginnings of democracy.

"It is irrelevant to me who wins the election as long as it is not González," he says. "Victory again would make Felipe a dictator." Mr Ramirez, 41, is the darling of intellectuals who once supported Mr González but who have not been able to stomach the grubbiness of government. Democracy should have been full of earnest, incisive debate, close elections and new ideas.

It has been none of those things, but Mr Ramirez tirelessly chases his dream of clean politics, and just before the last election, in October 1989, he crafted the weapon he needed. Sacked as editor of the Madrid daily, Diario 16, in March 1989 – for insulting the Socialists – he decided to become his own boss, and in seven months created, staffed and financed his own newspaper, El Mundo.

Practically every stone in the mountain of political scandal that has brought Mr González so close to defeat has been put there by El Mundo. Opposition parties regularly use its editorials as the starting point for parliamentary initiatives and, in the process, El Mundo has become the third biggest national daily newspaper in the country, after the pro-government El Pais and the right-wing ABC. It claims to sell nearly 250,000 copies a day. Rivals contest this, but last year El Mundo, now with a big Italian shareholder, made its first operating profit.

El Mundo's growth, especially among young urban readers, has frightened established titles. A professor at Madrid university has a class of 400 students and says "they all read El Mundo. You never see El Pais any more".

Mr González and Mr Ramirez were once on good terms, but the editor says Mr González failed to keep his promise to open up Spain. Soon after coming to power in 1982 the Socialists began co-opting people and institutions, he says.

Spain's constitution encourages this. Socialist parliamentary majorities have given them the majority of votes in the selection of supreme court judges and control of the boards of the public television and radio services.

They have changed the way the law works. Once, unpopular new legislation could be challenged and stopped in its tracks until the slow-moving constitutional court ruled. Now, new laws can be be applied *until* the court says otherwise, thus blunting one of democracy's important checks and balances. To quieten the press the Socialists also want to criminalise defamation.

But it was the discovery of GAL, a group attacking sympathisers of the Basque terrorist group Eta in exile in France, that finally made him and the prime minister deadly enemies. At Diario 16 and El Mundo, Mr Ramirez pursued what he assumed was a state-financed dirty war, supported by a crusading judge, Baltasar Garzon, who put two senior Basque policemen in jail over the affair. Now Mr Garzon has become a Socialist candidate and Mr Ramirez cannot contain his dismay: "Its like Robin Hood taking a job with the Sheriff of Nottingham."

Mr Ramirez' obsession has produced some outstanding journalism, documenting, among other things the GAL investigations, the Filesa scandal in which the Socialists appear to have raised funds illicitly from business, and the Guerra affair, where the ex-deputy prime minister's brother ran a business empire from a free government office.

Mr Ramirez is happy to admit he is helping the conservative Partido Popular in this election but insists this is only because they are the only opposition capable of winning. He is generous to the Communists, too, because they weaken the Socialists on the left.

Italian ex-PM at centre of probe on earthquake funds

By Robert Graham in Rome

MR Ciriaco De Mita, a former prime minister and ex-leader of the Christian Democrat party, was yesterday advised he was under investigation for alleged extortion in connection with the huge state funds available in the wake of the 1980 Irpinia earthquake, near Naples.

Naples magistrates said that they also wanted to question Mr Elveno Pastorelli, head of civil protection at the Interior Ministry, who was temporarily in charge of distributing the earthquake reconstruction funds.

At the same time, arrest warrants were issued for 15 local government officials and bank employees alleged to be involved in various frauds and over-invoicing scams to the tune of nearly L30bn (£13.2m). In a separate investigation, also connected with the earthquake reconstruction, an arrest warrant was issued for Mr Corrado Ferliano, the colourful construction magnate who runs Naples football club, on corruption charges. He is the seventh football club proprietor to be caught up in the corruption scandals.

The state disbursed nearly L12,000bn in earthquake relief in the area round Irpinia which is the political power base of Mr De Mita. He and Mr Pastorelli are alleged to have threatened owners of three companies with losing their disaster relief funds if they did not take on employees recommended by them. Mr De Mita's two brothers have already been arrested and charged with separate offences relating to the abuse of Irpinia funds. The latest moves undermine further the Christian Democrat power structure in Naples and the surrounding region.

Venture capital investments grow

By Charles Batchelor

THE European venture capital industry recorded increases in investments and new funds raised in 1992 despite the deepening recession in much of Europe.

Investments rose by 1.5 per cent to Ecu4.7bn (£3.7bn) while the level of new fund-raising increased by 0.6 per cent to Ecu4.2bn, according to a survey by the European Venture Capital Association (Evca) and accountants KPMG Peat Marwick. In 1991 new investments rose by 12 per cent but the amount of funds raised fell by 9 per cent.

Mr John Singer, Evca president-elect, said the outcome was "encouraging" during a recession when many small and medium-sized businesses had great difficulties raising finance.

Venture capitalists made a total of 6,197 investments last year, a decline of 10 per cent in 1991, although the average size of each investment rose from Ecu670,000 to Ecu760,000.

The most popular form of investment was in expanding established companies. They accounted for 46 per cent of spending last year, compared with 53 per cent in 1991, while management buy-outs accounted for 40 per cent, compared with 35 per cent the previous year.

Early-stage investments remained out of favour because of the risks involved, the relatively high cost of doing deals, and the length of time before profits can be realised. Start-up investments accounted for 5 per cent of total spending, down from 6 per cent the year before, while "seed" capital investments accounted for 0.6 per cent, down from 1 per cent).

The most popular industry sector was consumer products, representing 19 per cent of all spending, followed by "other manufacturing" and industrial products. Investments in the communications industry and the financial services sector increased sharply.

1993 Evca Yearbook. Evca, Keibergpark, Minervastraat 6, Box 6, B-1930 Zaventem, Belgium. To be published in June. Free.

NEWS: WORLD TRADE

Sutherland set to be named Gatt chief

By Frances Williams in Geneva

MR Peter Sutherland, former EC competition commissioner and now chairman of Allied Irish Banks, is expected to be named the next director-general of the General Agreement on Tariffs and Trade when Gatt members meet in special session on June 9.

The 47-year-old Irishman will take over from Mr Arthur Dunkel, a Swiss who has held the post since 1980. Mr Dunkel retires at the end of June.

Mr Sutherland, who was nominated by the Dublin government with EC support, was the clear favourite for the job once – after initial hesitation – he allowed his name to go forward.

Mr Sutherland, regarded as an able and astute EC commissioner, is reckoned to have the two essential qualities for the job, apart from a commitment to open trade: the ability to master technical, often highly complex, trade issues, and the political authority required to deal on equal terms with government leaders.

Once the US and other European nations made clear their support for Mr Sutherland, the two Latin American candidates, Mr Julio Lacarte-Muro of Uruguay and Mr Luis Fernando Jaramillo of Colombia, had no chance of securing the necessary consensus of Gatt's 111 members.

Gatt's top post has traditionally gone to a European; Mr Dunkel is Swiss and his two predecessors were Swiss and British.

Mr Balkrishan Zutshi, chairman of Gatt's contracting parties (members), expects to complete his consultations on Mr Sutherland's appointment, including terms and conditions, by the end of this month.

Mr Sutherland's most pressing tasks will be to complete the long-delayed Uruguay Round of trade liberalisation talks by the end of this year, when US negotiating authority runs out, and to give the world trade body new dynamism.

The June 9 contracting party session is also expected to decide to create a third post of deputy director-general, probably with responsibility for Gatt's economic analysis.

Mr Warren Lavorel, formerly chief US negotiator in the Uruguay Round, is in the running for one post, traditionally held by an American, which will become vacant when Mr Charles Carlisle steps down this summer. The second post, vacant for two years, has traditionally been held by an Indian and the third may go to a Latin American.

This "package" has disappointed Japan with no national of senior rank in Gatt. Tokyo has been lukewarm on Mr Sutherland's candidacy, though it is not expected to block a consensus.

● Negotiations on China's bid to rejoin Gatt resumed this week, but members of the 111-nation trade body appear to be in little hurry to admit Beijing.

Nearly seven years after China asked for Gatt membership, trading partners have not even agreed what should go into the country's draft protocol of accession. Much of this week's meeting remains concerned with clarification of its trade policy.

Recent talks have been slowed by the tense trade relations between China and the US, including conditions for renewal of its Most Favoured Nation status. However, many Gatt members share US concern that, without special safeguards, they could be swamped by a flood of cheap Chinese exports.

China opposes special safeguards and wants entry terms to reflect its developing country status. But recent international comparisons show China as the world's third biggest economy with a per capita income of $1,450 (£945), four times previous estimates.

See Observer, Page 15

Peter Sutherland: the clear favourite to head Gatt

Mexican textiles bet on Nafta lifeline

By Damian Fraser in Mexico City

MEXICO'S once thriving textile and clothing sectors have been badly hit by the country's free trade policy.

Cheap imports from South-East Asia and up-market goods from the US and Europe have devastated the industry, forcing some 300 textile companies to close since 1988, and putting about 20,000-25,000 workers out of a job.

Now, five years after the trade opening, the Mexican textile and clothes industry is betting the North American Free Trade Agreement (Nafta) will reverse its ailing fortunes.

Industrialists are hoping a flood of joint ventures with US competitors, cheap foreign capital and guaranteed access to the US market will raise productivity and make the sector more competitive.

Under Nafta, the quota on Mexican textile exports to the US will be scrapped, while current tariffs of 20 per cent or more will be phased out.

The so-called yarn forward agreement in Nafta means fibres have to be converted into textiles in Mexico, the US, or Canada to be sold duty-free in the region, giving Mexico a significant edge over Asian competitors.

Mr Peter Hutchinson, finance director of Alfa, the conglomerate with a joint venture in fibres with Dupont, says: "The downstream part of the chain in textiles and garments is very labour-intensive and thus there is a strong rationale to have production in Mexico given its comparative advantages under Nafta."

However, the transitition may involve a further shake-out in the Mexican textile industry before it can reap the benefits of Nafta. For every well capitalised, efficient Mexican textile company, there are still several others with little money, antiquated machinery and small product lines.

Mr Javier de la Rosa, finance director of Grupo Synkro, Mexico's largest tights maker, warns: "The restructuring in the industry is going to continue, because in general the textile sector has not invested in new technology and in better fabrics. Obviously it has concentrated just on survival." He sees several more years of consolidation in the sector.

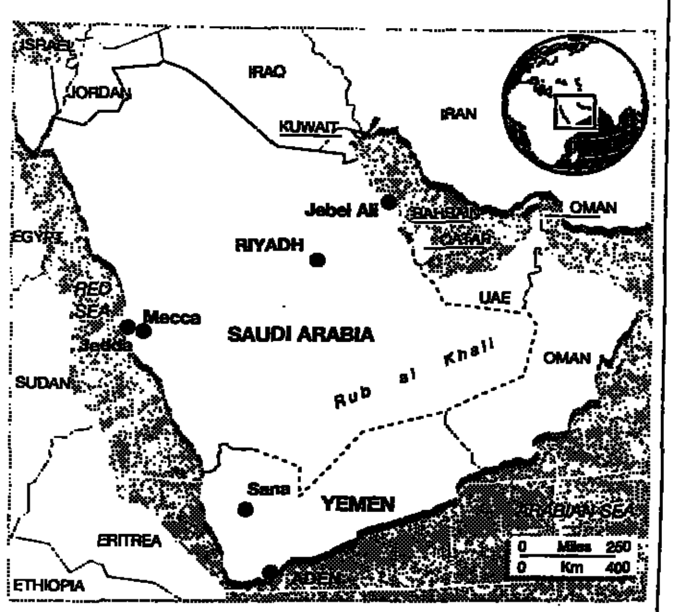
Joint ventures make sense because while US companies can offer cheap capital and knowledge of the US market, the Mexican companies can offer wages a fifth of the level in the US.

Closeness between Mexico and the US means Mexican factories can respond more quickly to changes in the US consumer market than Asian competitors.

Cydsa, a petrochemicals to textiles conglomerate, is probably involved in the largest joint venture to date. It is set to formalise an alliance with the US textile company Jantzen in the production and commercialisation of 2m sweaters a year, of which about 85 per cent will be exported.

Jantzen sells the sweaters throughout the US using its established distribution network and is advising Cydsa on some technical aspects of the manufacturing process.

Smaller companies are engaging in joint ventures. Mr Jorge Marin, the 37-year-old president of the Garment Business Chamber and head of the Industrias Extro, is now building a factory in partnership with Hart-Marx, a US textile maker, to produce 2,000 Oxford trousers a day for export and domestic markets.



High hopes for Aden seaport's return to glory

By Eric Watkins in Sana

ADEN, formerly one of the world's busiest seaports, saw a sharp decline in its fortunes in the two decades following the takeover in 1967 of a Marxist government in South Yemen. That situation may soon be reversed with new legislation and detailed plans for the creation of a free trade zone in Aden.

"Location [on the south-western tip of the Arabian peninsula] is without a doubt Aden's strongest asset and will enable it to compete with other zones in the area," says Mr Gerald Tunnel, of the US Raytheon Corporation and project manager for the recently completed masterplan for the proposed free trade zone.

Mr Tunnel concedes that Aden at the moment lacks the facilities to compete with nearby Jebel Ali in the Gulf. But he insists Aden has "reasonably good" facilities and that its location represents better value for shippers in terms of time and money.

"Shippers can save two and a half days' shipping time by sailing to Aden instead of to Jebel Ali," he says.

"In financial terms that represents $100,000 (£65,000) per journey and about $1.5m a year."

Raytheon's masterplan proposes a four-phase programme of development over a 25-year period and calling for total investment of $5.8bn to develop the port's infrastructure.

As an inducement to investors, the Yemeni government in April passed legislation offering a variety of incentives, including exemptions from import and export duties, from taxes on industrial and commercial profits, and from income tax for 15 years.

Plans at the moment propose activities including industry, light manufacturing, assembly, and tourism. But the focus will be on developing Aden's potential as a trans-shipment centre for world trade.

Toward that end the masterplan calls on Yemeni administrators to introduce competitive methods to their respective sectors as quickly as possible by privatising all facilities and services connected with the free zone, especially Aden's airport and harbour facilities.

Promoters of the free zone admit to difficulties. Aden has long had an unfavourable reputation for union militancy and low discharge rates.

EC urges Seoul to cut trade barriers

By Lionel Barber in Brussels

SOUTH KOREA needs to dismantle trade barriers further if it is to reach its goal of closer political co-operation with the EC, according to a European Commission document released yesterday.

The Commission pays tribute to Seoul's efforts to open its market, but sets out a lengthy "wish-list" covering products and non-tariff barriers currently under negotiation.

● Patents and intellectual property rights. The Commission wants a 1991 accord updated to include pharmaceuticals and agro-chemicals. Progress on eliminating counterfeiting and trade piracy is "encouraging."

● Consumer products. Despite steep reductions in customs duties, outstanding tariffs remain on imported alcohol. The EC is worried about Seoul's restrictions on EC-sourced cars.

● Telecommunications. The Commission wants new Korean laws reviewed to make sure they do not discriminate against EC telecoms suppliers.

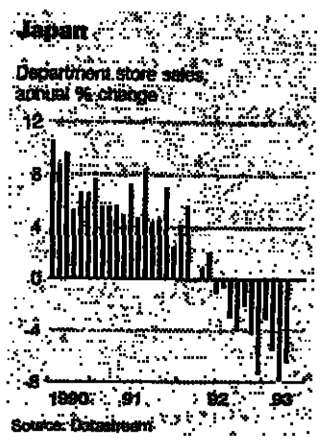
● Financial services. The EC wants its banks to be allowed to open affiliates and an open market for non-life assurance.

● Foreign investment. Korean rules are too complex, and too restrictive. Foreign companies in Korea also face restrictions on bringing in capital from abroad.

The Commission report notes that bilateral trade has quadrupled between 1982 and 1991 to almost $15bn (£9.7bn). Korea enjoyed a slight trade surplus of Ecu800m (£622.4m), but EC exports dropped 12 per cent in 1992 because of the slowdown in South Korea.

Department store sales fall in Japan

By Robert Thomson in Tokyo



Source: Datastream

JAPANESE department store sales fell 6.5 per cent last month, in an indication of the continuing weakness in consumer spending that is dragging down the country's economy.

Car makers, who hoped their market had turned the corner in March, when new registrations rose 3.4 per cent, reported yesterday that passenger vehicle output was down 9.9 per cent last month and sales were 9.5 per cent lower than a year earlier.

Officials at the Economic Planning Agency are concerned that consumers' reluctance to spend could slow economic recovery, in spite of two emergency economic packages, which were aimed at stimulating the public sector rather than private consumption.

The EPA is also worried because sluggish domestic demand has led to a slowing of imports and a rapid expansion of the trade surplus over the past year, intensifying the friction between Japan and the US. Export industries also have an incentive to increase overseas sales to make use of excess capacity on domestic production lines.

Consumer spending has fallen in tandem with overtime hours and coincides with a growing sense of job insecurity created by companies' promises to reduce staff and cut costs in the quest for improved profitability. Many Japanese companies have just released their annual results, showing a third year of falling profits and the likelihood of another fall this year.

The Japan Department Stores' Association said sales in April were lower in all areas, including a 13.1 per cent drop in household goods and 6.6 per cent in clothing. In larger Japanese cities, sales slipped 7.9 per cent, while in other areas, they were down 4.4 per cent.

Demand for commercial vehicles is particularly weak, with truck output falling 13.2 per cent last month, the Japan Automobile Manufacturers' Association said. Most Japanese companies are cutting capital spending, and postponing or cancelling new vehicle purchases.

In the first four months of this year, passenger car production slipped 4.8 per cent, following a 3.8 per cent decline last year and a 2 per cent fall in 1991, putting extreme pressure on most of the country's car makers.

Meanwhile, the Finance Ministry said Japan's net foreign assets rose 34 per cent last year to $513.62bn (£333.5bn), mostly because of a surge in the current account surplus. The ministry said private debt fell by 15 per cent, which reflected the willingness of Japanese financial institutions to withdraw from foreign projects to bolster their domestic operations.

Private direct investment rose 7 per cent last year to $248bn and investment in securities rose 3.6 per cent to $655bn, though both areas would have registered falls if the yen had not appreciated. Direct investment in Japan was 26 per cent higher at $15.5bn, while non-residents' investment in Japanese securities expanded 2.8 per cent to $431.4bn.

Aircraft retaliate for sabotage against oil pipelines as election nears

Iranians raid guerrilla bases in Iraq

By Parichere Mosteshar

IRANIAN aircraft yesterday raided guerrilla bases in Iraq in retaliation for a series of attacks which have left an already war battered oil network in even greater disarray.

Mr Ali Akbar Nateq-Nouri, the Majlis (parliament) speaker, confirmed early morning raids against bases of the Mujahideen Khalq north-east of Baghdad.

He said the raids, the first since April 1992, were launched in response to recent acts of sabotage by the mujahideen ahead of presidential elections set for June 11.

Tehran said last week that infiltrators from Iraq had blown up oil pipelines in oil-producing Khuzestan province in south-west Iran and clashed with government forces elsewhere.

The mujahideen claim to have killed scores of government soldiers in a series of ambushes in the past month.

The organisation runs several camps in Iraq, and sided with the Iraqis during the eight-year war with Iran.

Ordinary Iranians were yesterday unaware that their government had once again taken arms against what remains the only thorn in the side of the Rafsanjani government. However, popular support for the mujahideen is minimal and yesterday's events are likely to have more significance in Washington than in Tehran.

The mujahideen were instrumental in bringing about the Islamic republic, but their "Marxist" leanings later proved unpalatable to the mullahs.

The leadership fled to Iraq, where its backing of the enemy in the Iran-Iraq war lost it what popular support it might have had.

A government spokesman in Tehran yesterday played down the significance of the attacks. The mujahideen "want to stir things up as people pay Iran attention coming up to the elections, to make themselves look as an alternative. These events are to attract the attention and financial backing of Clinton," he said.

"It is very unimportant and ordinary. In the affairs of this country it is not very important, in the same way as the British government is not in danger when the IRA plant bombs in London."

In August last year a series of bomb attacks in Tehran and several other Iranian cities were laid at the door of "Iraqi agents". The mujahideen claimed responsibility for the attacks, but the Iranians arrested "an Iraqi" who "confessed" that he was an agent of Saddam Hussein.

Following last year's attacks on mujahideen bases in Iraq, the organisation claimed responsibility for a number of riots in the Iranian cities of Shiraz, Arak and Mahshad. President Rafsanjani dismissed the events as "mere gatherings".

It is more probable that the riots were the work of the so-called fundamentalists who had just lost political power in the Majlis elections last May.

EC seeks observers at trial of Tibetans

By Alexander Nicoll, Asia Editor

THE European Community is likely to press China to allow it to have observers present at the trial of Tibetan dissidents arrested around the time of last week's visit by European diplomats to Tibet, European officials said yesterday.

European pressure, and violence in Lhasa on Monday and yesterday, are embarrassments which Beijing did not want while Washington debates the conditions which it will attach early in June to China's most-favoured nation trading status.

Police yesterday used tear gas for a second day running to disperse a group of 100 to 200 Tibetans who gathered outside Jokhang Temple, a shrine in the Tibetan capital. Many shops were closed and police patrols were heavy in Lhasa.

Envoys from the 12 EC countries, now back in Beijing, are working on a report about their week-long visit to observe the human rights situation, during which they learned of the arrests of three named individuals. The Danish ambassador, representing the EC presidency, sought to have observers at their trial, and also requested access to them. He was refused.

According to European officials, the authorities at first said they had no knowledge of the arrests, but later confirmed them.

Western countries believe independence of Tibet from China is unrealistic but want Beijing to discuss the territory's future with Tibetans including the Dalai Lama, their spiritual leader.

Reuters newsagency quoted a police spokesman describing Monday's demonstration of about 2,000 people as "counter-revolutionary activity".

"It began as a protest in the name of lowering prices for grain and oil, but it changed its nature into a counter-revolutionary activity," the police officer said. "The demonstrators plotted to attack government offices and police stations and to beat policemen."

Pyongyang calls for talks over nuclear treaty

By John Burton

DIPLOMATIC activity aimed at preventing a showdown over North Korea's suspected development of nuclear weapons has accelerated with Pyongyang yesterday proposing talks with South Korea, while the US agreed to hold discussions on the issue with North Korea next week.

The flurry of negotiations comes shortly before the June 12 deadline when North Korea is scheduled to withdraw formally from the nuclear non-proliferation treaty (NPT), which would halt inspections of its nuclear facilities by the International Atomic Energy Agency (IAEA).

The US and South Korea hope to persuade North Korea to remain a signatory of the treaty.

The US-North Korean talks, which are scheduled for June 2 in New York, are considered crucial in solving the crisis.

The high-level discussions will involve Mr Robert Gallucci, the US assistant secretary of state for political-military affairs, and Mr Kang Sok Chu, the first vice foreign minister of North Korea. North Korea is believed to be seeking improved ties with the US in exchange for returning to the NPT, according to officials in Seoul.

North Korea cited an alleged threat from the US in justifying its withdrawal from the treaty, including the holding of US military exercises in South Korea.

It also claimed that special inspections demanded by the IAEA of two nuclear facilities would provide important military information to the US.

Some analysts believe that North Korea decided to withdraw from the NPT in a desperate attempt to gain US diplomatic recognition, which Pyongyang would regard as a guarantee of its independence.

South Korea said it had no objections to the establishment of diplomatic relations between Washington and Pyongyang.

North Korea also offered yesterday to resume talks with South Korea on May 31 in what was considered a conciliatory gesture.

The proposal was in response to a similar suggestion made by Seoul last week.

Asia energy needs double

By Kieran Cooke in Singapore

FT

MR Daniel Ritchie, director of the World Bank's Asia technical department, said yesterday that soaring economic growth rates in Asia meant that the region's energy needs would double during the 1990s.

Speaking at a Financial Times Asian Electricity conference in Singapore, Mr Ritchie said additional power capacity of between 125,000MW and 160,000MW was needed in Asia by the year 2000 – costing a total of between $400bn and $500bn (£260bn and £326bn).

He said the private sector needed to become more involved in investing in Asia's power sector as traditional ways of financing power projects – through government funding or publicly guaranteed funds – were no longer practical.

So far there were only 10 power projects in the region with private sector participation.

Representatives of several countries in the region outlined ambitious power expansion plans. Mr Tajol Rosli Gazali, Malaysia's deputy energy minister, said Malaysia now had an installed capacity of 4,890MW.

With an economy forecast to grow at an annual rate of 7 per cent over the next 25 years, power demand would rise to 9,500MW by the year 2000 and more than 29,000MW by 2015. Mr Tajol said that M$100bn (£25bn) would be needed over the next 30 years to implement such a power expansion programme.

Dr Pham Khanh Toan of Vietnam's Ministry of Energy said that the country's energy consumption per capita was now one of the world's lowest.

He said a large-scale power expansion programme was urgently needed. Without a growth in power output the Vietnamese economy could not expand. "We calculate that we will need between $20bn and $30bn in investment in the power sector between now and the end of the century.," said Dr Toan. He said Vietnam had very little funds of its own. "Everything depends on the support of foreign countries."

Speakers from Thailand, South Korea and the Philippines also outlined plans to carry out large-scale expansion projects in the near future.

Cambodia poll 'free and fair'

THE HEAD of the United Nations mission said yesterday Cambodia's election had been "free and fair" and people had been able to vote for the candidates they wanted in spite of intimidation by authorities, AP reports from Siem Reap.

No significant incidents were reported on the third day of the UN-organised six-day balloting, Cambodia's first multiparty election since 1972.

"This election has not been held in an ideal situation but, nevertheless, it has met the yardstick for a realistic standard for free and fair elections," Mr Yasushi Akashi, the UN peace-keeping chief, told reporters during a tour of polling stations in north-western Cambodia.

More than 85 per cent of Cambodia's 4.76m registered voters have already cast their ballots, Mr Eric Falt, a UN spokesman, said.

Mr Akashi said he could not understand why the Khmer Rouge had not done more to disrupt the poll. "Their minds are unfathomable," he said. In a surprise move, some Khmer Rouge leaders let guerrillas and villagers vote on Monday in the areas they control in spite of earlier threats to disrupt balloting.

Taiwan's $300bn 'publicity stunt' is cut down to size

Simon Davies on the island's infrastructure development plan

TAIWAN'S six-year development plan announced two years ago was filled with sound and fury, with its US$300bn (£194.8bn) spending spree to drag the island's infrastructure into the 21st century; it is becoming rapidly apparent that it signifies less.

The government is discussing a substantial cut in the T$786bn (£19.8bn) budget for the plan next year in the face of a borrowing squeeze. It will also soon announce the results of a review of the plan, which will postpone work on a number of grandiose projects.

This looks set to turn the plan back into a collection of projects that were already under way in 1991, before Mr Hau Pei-tsun, then prime minister, announced 771 separate project proposals to be undertaken during President Lee Teng-hui's six-year term.

It seems now it was little more than a publicity stunt, but a successful one. It has raised Taiwan's international profile through the offering of politically leveraged deals to recession-hit western nations, and it has helped Taiwan weather a property, stock market and investment slump.

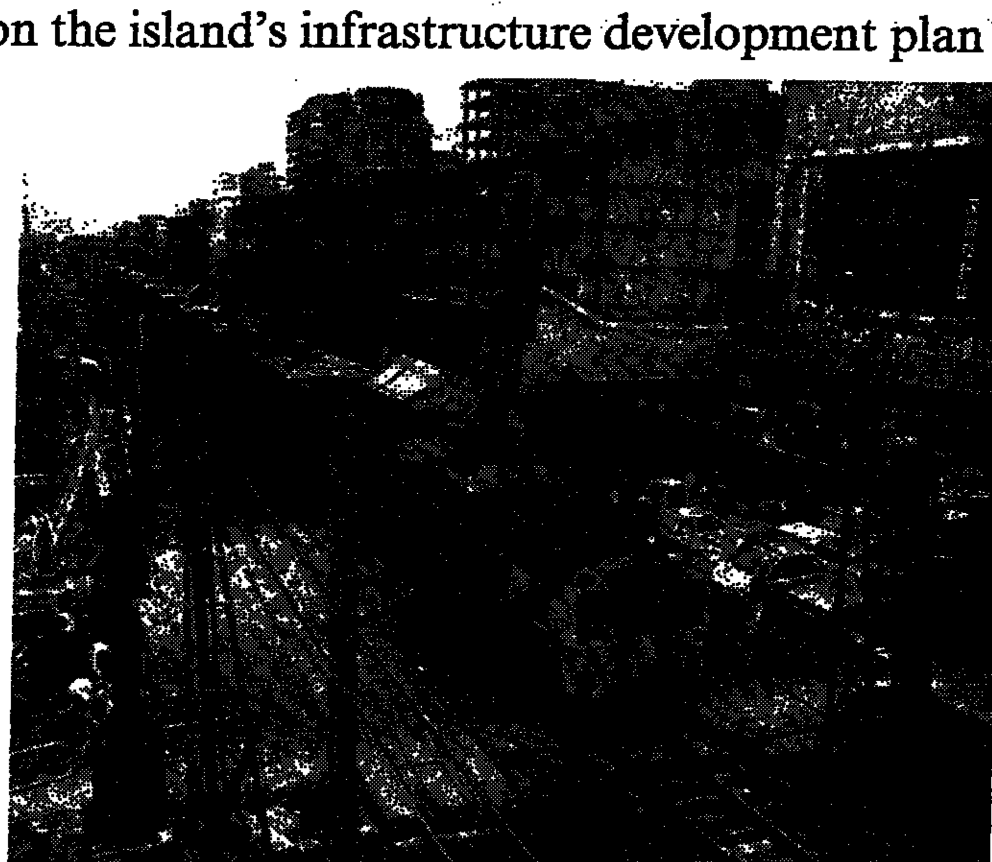
The 1991 plan was for a T$8,200bn investment programme that would channel Taiwan's notoriously speculative capital flows into infrastructural projects.

At the time, the government said: "Let us work hand in hand for the happiness of all our citizens and let us exert ourselves for the future of our nation." Two years later Taiwan's citizens are viewing the plan with a less than happy cynicism.

The Northern Section highway was budgeted to cost T$58bn, but difficulties in land acquisition have led to a final cost of T$178bn. The government had to negotiate with 10,000 landowners.

Taipei's much-needed T$444bn Mass Rapid Transit system has also been mired by corruption investigations over contracts and by a recent incident in which a train carriage burst into flames during a test run.

In the end, the biggest problem is of a more fundamental nature – money. Mr Tsai Hsung-hsiung, vice-chairman of the Council for Economic Planning and Development, which co-ordinates the project, said: "From a macro point of view the resources are there. The problem is channelling these resources into the projects."


Taipei tangle: infrastructure investment has been less popular than more speculative flows

The government, in spite of its legendary $82bn (£53bn) foreign reserves, is having difficulty finding its portion of the finance. "We expected a current account surplus of about T$200bn in 1991. The actual figure was around a quarter of what we expected," said Mr Tsai.

'Resources are there. The problem is channelling them into the projects'

The government has expanded its bond issuing programme. Outstanding bonds will account for about 21 per cent of gross national product by the end of the year to June 1994, up from 5 per cent in 1991. However, bond issues have a ceiling in relation to government expenditure, and this has virtually been reached. The government is also facing opposition from MPs who have to approve financing for the scheme. As one merchant banker said: "It has been slowed down by the fact that it has happened at the same time as the economy is being democratised."

Mr James Wen, vice-president of China Securities, said: "They were too aggressive in the beginning. They are now being more practical and focusing on what they can actually accomplish." He predicts that 40 per cent of the projects will be put off, leaving the T$4,940bn-worth of projects that were already on stream when the plan was announced.

This would result in the postponement of a T$426bn high-speed railway, a T$170bn nuclear power station, five mass transit systems for provincial cities, and some of the 12 improbable east-west highways that had been proposed.

However, the remaining projects in the spending programme – a quarter of which are leftovers from the "14 key projects" plan of the mid-1980s – still tower above other Asian infrastructural programmes.

Taiwan, whose financial muscle has historically been in inverse proportion to its international standing, has not been shy in tempting recession-ridden western governments with construction opportunities.

"Every major project has had a political price tag," said one foreign businessman, and this has been reflected in an increase in the stature of diplomatic visitors to Taipei since the plan was launched.

It is deemed to be no coincidence that France's sale of Mirage jets to Taiwan followed Matra's winning of the construction contract for one line of Taipei's MRT system and at a time when GEC-Alsthom's TGV train was highly favoured to win the contract for Taiwan's now-postponed high-speed rail system.

Beijing blacklists 3,000 polluters

THE Chinese government has blacklisted 3,000 companies judged to be the country's worst polluters, Reuter reports from Beijing.

The companies belched out 60 per cent of China's measured industrial waste, soot and other pollutants, the official news agency Xinhua said.

"If major efforts are made for the control of environmental problems caused by the 3,000 enterprises, China will be much cleaner," it said.

Among offenders were big state-run enterprises such as Anshan Iron and Steel and the Daqing General Industrial Petrochemical Plant. The agency did not say what action would be taken against companies on the blacklist.

Environmental pollution is a growing problem as China's economy expands, presenting the government with a dilemma of development versus public health.

Work starts on Bangkok link

Work started yesterday on a Bt80bn ($3.2bn) scheme to build a 60km elevated rail and road network through the heart of traffic-clogged Bangkok, writes William Barnes in Bangkok.

Bureaucratic and political wrangles have delayed the project, first signed in November 1991 and talked of for at least three decades.

The railway, capable of carrying 3m people a day, is scheduled for completion in 1999 after which it will be operated by a private company, Hopewell Holdings of Hong Kong, for 30 years before it is handed over to the government.

GE and Hitachi plan gas turbine

General Electric of the US and Hitachi of Japan are to work together to produce a medium-sized gas turbine, designed for utility, industrial and co-generation applications in the 70MW-110MW range worldwide, Andrew Baxter writes.

The deal is an important extension of the long-standing relationship between the two companies. Hitachi, which is a member of GE's network of gas turbine business associates, will participate in the scaling-down of GE's 159MW 7FA turbine to create the new machine, the 6FA.

Maghreb bank to open in 1994

A foreign trade bank planned by the Arab Maghreb Union is to open early in 1994 and its head office will be in Tunis, Reuter reports from Tunis.

Dams make a desert of north-east Nigeria

Construction of irrigation projects provides no economic benefit. **Paul Adams** reports

HEAVY RAINS in June have been the signal for generations of farmers, fishermen and herdsmen of Nigeria's north-east arid zone to prepare for the annual floods.

But this year around 2m people in Yobe and Borno fear that the floods will not come. If the federal government carries on building dams in the north, their traditional way of life and diverse natural habitat face extinction.

Upstream dams near Kano have at least halved the flood water in the Hadejia-Nguru wetlands and work has begun on a much larger dam at Keffin Zaki on the Jama'are river in Bauchi state which could turn the fertile Yobe-Komadougou basin into a desert.

In April last year Dr Bukar Shaib, head of the Federal Environmental Protection Agency (Fepa), drafted a letter to President Ibrahim Babangida asking him to halt this project. It contained a proposal to set up a co-ordinating authority for water resources in the Hadejia-Jama'are-Yobe river basin.

The letter warned that unless water was "properly co-ordinated at the federal level, conflicts will arise between the five states within the basin and there will be very serious desertification and ecological problems in Jigawa, Yobe and Borno states.

"Without such co-ordination the EC delegate to Nigeria cannot recommend the continuation of the North East Arid Zone Development Programme on which the EC is spending about $50m in the next five years."

Dr Shaib cited a report by agricultural experts that "the Keffin Zaki dam project should be shelved unless a full and independent study of the environmental impact of the dam and irrigation schemes downstream proves their economic benefit to all users."

The sun sets over wetlands during floods two years ago near the town of Nguru in the north of Borno state

Ashley Ashwood

The letter was despatched via Mr Abubakar Hashidu, then agriculture minister, who comes from Bauchi state, but it did not reach the president. Months later Mr Hashidu awarded the Keffin Zaki dam contract to Julius Berger Nigeria for an estimated N12bn ($482m). The decision was taken without any study of the environmental impact or economic benefits.

Annual floods in the wetlands and Yobe river downstream are vital to the economy of north-east Nigeria because they re-charge the water supply of the region up to Lake Chad and provide surface water even in the long dry season. Yobe and Borno states account for most of Nigeria's livestock, notably the Fulani cattle.

The flooded areas produce crops all year, of which the most valuable is rice. Last year operation of the Challawa dam severely reduced the flood, already lowered by Tiga dam, and nearly all the rice crop failed in the Hadejia river area.

Fisheries worth about N50m and the trees, reeds and mud used for timber, fuel and building are dependent on the floods. The wetlands are home to 260 species of birds including many which migrate for the European summer and part of the area has been made a wildlife sanctuary.

Drought in the 1970s led to a programme of building irrigation dams, which the government has since pursued despite poor productivity and increasingly alarming consequences downstream.

Mr Isa Mohammed, the present secretary of state for agriculture responsible for water resources, declined to discuss the issue.

In the past 20 years the government has invested $3bn in schemes which have impounded enough water to irrigate about half a million hectares and yet only about 70,000 hectares are being irrigated – an overall cost of $43,000 to irrigate each hectare. Yet scientists estimate that the net annual benefits of land use in the natural wetlands are 12 times higher than on the Kano river irrigation project upstream.

The governors of Yobe and Borno states are seeking an interview with the president in Abuja to put the case for their region.

"The dam would be a disaster for Yobe and Borno," according to an adviser to the governor of Yobe state. "Keffin Zaki dam would be shallow with a very high evaporation rate. It is supposed to irrigate 85,000 hectares in Bauchi state, but they do not need it and the downstream states do."

The proposed dam would also cut the water supply to the arid zone of neighbouring Niger along its south-eastern border and reduce the flow into Lake Chad, which is already drying up fast as a result of dams built in Cameroon and further south.

The contractors are mobilising on the dam site but construction has not yet begun. Dr Muhtari Aminu-Kano, director of the Hadejia-Nguru Wetlands Conservation Project, is working with the Nigeria Conservation Foundation and other groups to change official policy and remains optimistic.

"But if adequate planning is not done and we do not keep the wetlands wet, we will lose all the crops, livestock, fish and fuel-wood that have been produced in this area and people will move en masse to the south. The question we have to ask ourselves is: can this country cope with that kind of dislocation?"

As part of its search for debt relief from official creditors, Nigeria has been advised by the IMF to review projects which contribute little to the nation's economic revival. The Keffin Zaki dam scheme is arguably a good place to start.

New president to face uphill task

NIGERIA'S two presidential hopefuls have promised voters a quick economic fix but whoever wins next month's poll will face a daunting task to mend sub-Saharan Africa's biggest economy, Reuter reports from Lagos.

Mr Bashir Tofa, the National Republican Convention (NRC) candidate, and Mr Moshood Abiola, the Social Democratic party (SDP) flag-bearer, have both made treatment of the debt-ridden economy the main campaign issue.

Mr Tofa, a bank chairman, said on radio that raising the value of Nigeria's naira currency would be his priority, if elected. Mr Abiola, a newspaper tycoon, said on television he could strengthen the currency and turn the economy round within six months of taking office.

Both candidates pledged to raise the capacity utilisation of cash-strapped industries, tackle unemployment and reduce Nigeria's heavy debt burden – vote-catching statements in a nation where most people's living standards have dropped since the army toppled the country's last civilian government in 1983.

But economists doubt their programmes will do more to solve basic economic problems than the military government's free market-oriented Structural Adjustment Programme.

"Neither candidate has really dealt with the real issues... how to curb corruption, restore local and foreign confidence in the economy and reduce dependence on imports," a Lagos-based western banker said.

The incoming civilian government is likely to inherit an economy burdened by about $28bn of foreign debts, a weak naira, high inflation and a population that expects relief from years of austerity.

NEWS: THE AMERICAS

Sharp decline in US consumer confidence

By Michael Prowse in Washington

US CONSUMER confidence fell sharply this month to its lowest level since October, adding to doubts about the momentum of the US economic recovery.

The Conference Board, a New York business analysis group, said its confidence index fell to 61.5, more than reversing a brief rebound in consumer sentiment in the spring that had lifted the index to 67.6 per cent last month.

The latest figures indicate that the surge in confidence that followed President Bill Clinton's election victory last November has completely evaporated. In a strong recovery, the index would be expected to climb above 100.

Separate figures yesterday showed a 2.7 per cent gain in sales of existing homes between March and April, a modest rebound after bad weather hit sales in the first quarter. Sales, however, were still running 0.9 per cent below the level of April 1992.

In financial markets, analysts attribute the lack of confidence partly to uncertainty about the fate of the Clinton economic plan, which is now under attack from moderate congressional Democrats as well as Republicans.

Mr David Jones, chief economist at Aubrey G Lanston, a New York brokerage, said the tax rises proposed by the Clinton administration had undermined the confidence of small and medium-sized businesses.

Leaks in Washington suggesting the White House was considering new payroll taxes to pay for an expensive reform of healthcare were the "last straw" for many businessmen.

"Consumers are increasingly worried about job prospects," said Mr Fabian Linden, a spokesman for the Conference Board.

Only 13 per cent of people surveyed believed there would be more jobs in the months ahead – the lowest reading in well over a year, he said. Fewer people were expecting an improvement in business conditions over the next six months than in April.

The weak figures highlight the dilemma facing the Federal Reserve. If the recovery were stronger, the Fed might already be nudging interest rates higher in response to signs of higher inflationary pressures in recent months.

But with parts of the economy apparently still struggling, many analysts expect the Fed to postpone a tightening of policy until clearer evidence of sustained growth and higher inflation emerges.

Jorge Serrano: decision after meeting military high command

Guatemalan president suspends constitution

By Edward Orlebar in Guatemala City

GUATEMALA'S President Jorge Serrano yesterday suspended the country's constitution, dissolving congress and the supreme court in what he said was an attempt to "purify the state of all its corruption".

Mr Serrano took the unexpected decision after meeting the military high command, which has shown growing dissatisfaction with recent civil unrest over the government's unpopular economic measures.

Students have been protesting over transport price rises and there has been discontent over government attempts to raise electricity charges in keeping with its standby agreement with the International Monetary Fund. Yesterday, however, the streets of the capital were quiet with security forces surrounding most public buildings.

"The army took the decision to stage a technical coup," said Congressmen Rodolfo Garcia Salas.

The president also suspended the office of human rights ombudsman, Mr Ramiro de Leon Carpio, who with a number of other officials was placed under house arrest. European diplomats yesterday went to the residence of Mr de Leon Carpio, who has been an acerbic critic of the government and the military, to demonstrate their support.

Mr Serrano attacked the supreme court for failing to administer justice and for allowing criminals to go free.

"For two and half years I've been subjected to political blackmail by some members of congress," he said in a national radio broadcast. Mr Serrano called on the supreme electoral tribunal to hold a constituent assembly to begin discussions on a new constitution within 60 days.

Mr Serrano, a fundamentalist evangelical who won a surprise landslide victory in January 1991 to become only the third democratically elected civilian president in Guatemalan history, this month lost a working alliance he enjoyed in congress with opposition parties.

In recent weeks his uncomfortable presidency has deteriorated. Talks between the government and leftist National Guatemalan Revolutionary Unity guerrillas broke down earlier this month with both sides accusing the other of a lack of political will to negotiate.

Mr Serrano made a campaign promise to negotiate an end to Guatemala's 33-year-old civil war, but peace now appears further away than ever.

Clinton hones effort to secure deficit package

By Jurek Martin in Washington

PRESIDENT Bill Clinton yesterday intensified his lobbying for the House of Representatives to pass his deficit reduction package tomorrow, but was told by some Democratic congressmen that he needed to make his case in a nationally televised address.

Congressman Dan Glickman from Kansas emerged from a morning White House meeting of Democrats with the president to declare that "the American people do not completely understand what's in the programme".

Congressman Bill Richardson of New Mexico complained that "we seem to have lost the perception game".

He was referring to congressional critics who contend the package relies too much on tax increases and not enough on spending cuts to achieve its goal of reducing the budget deficit by about $500bn (£324.6bn) over five years.

House members are particularly agitated that their vote tomorrow may be negated later in the Senate, as happened with Mr Clinton's economic stimulus programme.

The bill in front of the House includes the energy tax, the particular object of Senate discontent.

The Democratic leadership in the House remains guardedly confident that it can carry the day.

A total of 218 votes are needed to pass, and the Democrats currently hold a 257-176 edge, with one independent and one vacancy. Mr Clinton was to meet with freshmen members later yesterday.

One indication of the administration's concern was the report that it is considering moves to bypass the Senate finance committee, which is due to vote next week on the programme.

Alternative plans include having the budget committee write the bill or, in extremis, having it written on the Senate floor itself.

The Democrats only hold an 11-9 majority on the finance committee which could disappear if Senator David Boren of Oklahoma carries out his threat to oppose the bill unless the energy tax is substantially amended.

The president's general cause was not helped by two public opinion polls yesterday showing sharp declines both in his own popularity and in support for his economic programme.

A CNN-USA Today poll had his approval rating down to 44 per cent and ABC News to 46 per cent, the latter a 13 point drop in the last six weeks. The first poll found support for the economic programme also down to 44 per cent while 64 per cent of the ABC poll agreed it relied too much on increasing taxes.

Mexico forced to face its drugs war

Damian Fraser on a problem highlighted by the death of the cardinal of Guadalajara

THE killing on Monday of Cardinal Juan Jesus Posadas Ocampo of Guadalajara appears to be the latest and, for many, the most shocking development in Mexico's drugs war.

The Roman Catholic cardinal and six other people died in the airport carpark of Guadalajara, Mexico's second city. Officials said they thought they died in crossfire during a shoot-out involving suspected drugs traffickers. Two men have been detained by the Mexican police.

Cardinal Posadas, who was 66, had been cardinal in Guadalajara for nearly two years, and had previously served as bishop in the cities of Tijuana and Cuernavaca. Masses in his honour were being held throughout the overwhelmingly Roman Catholic country yesterday.

While drug-related violence is usually concentrated in a few towns in the north of Mexico, where the cartels reside, the number of such killings has been increasing and has exposed Mexico to criticism from US drug-enforcement authorities, who point to official corruption that allows the traffickers to flourish. Between 50 and 70 per cent of US-bound cocaine is shipped through Mexico.

In November last year, in perhaps the most notorious recent incident, at least a dozen men with machine guns shot dead six drug traffickers in a discotheque in Puerto Vallarta, a holiday resort on the Pacific coast, near Guadalajara. In January this year, a vicious clan war broke out in Culiacan, Sinoloa, Mexico's drug capital, as more than 60 people were murdered in 20 days, including eight in a public shoot-out in the central square.

On April 11 the drug fight then reached the holiday resort of Cancun, on the Caribbean coast, when six armed assailants killed Rafael Aguilar Guajardo, a drug trafficker from the cartel of Ciudad Juarez, and an American tourist.

On May 1, in what was described as a government triumph, the chief of the Guadalajara cartel, Emilio Quintero Payan, was gunned down by police outside a shopping centre in northern Mexico City, in which again a bystander died.

Such attacks partly reflect turf wars as a new generation of drug traffickers vie to take over from those who have been imprisoned or killed. But the drug problem could yet cause difficulties for Mexico in the run-up to the vote on the North American Free Trade Agreement.

Cardinal Posadas last month

Until now, most of the debate over Nafta has focused on US job losses and Mexico's lax enforcement of environmental and labour laws. But this week both the New York Times and Proceso, a weekly Mexican magazine, gave extensive coverage to a report from a US intelligence officer that warned Mexican drug-traffickers were planning to take advantage of lax border controls.

Drug-traffickers, the report said, were planning to purchase trucking and warehouse businesses along the border, and had started buying in-bond plants as conduits for drug shipments.

Under international and domestic pressure, President Carlos Salinas in January this year replaced an ineffective attorney-general with Mr Jorge Carpizo, former head of the National Human Rights Commission, and a man known for his aversion to corruption.

Mr Carpizo soon announced that some 200 anti-drug agents (of a total of about 2,000) were being investigated for links to the drug-traffickers, and issued a warrant for the arrest for Mr Guillermo Gonzalez Calderoni, former head of the drug investigations in the attorney-general's office, for "inexplicable enrichment".

A judge from the First District has also been accused of conspiring with drug-traffickers for refusing to issue warrants for arrest of 19 suspected cocaine smugglers for no apparent reason.

NEWS: UK

GDP growth underlines end of UK recession

By Emma Tucker, Economics Staff

GROWTH in the economy in the first quarter was stronger than expected, with consumer spending leading the economy out of recession.

Official figures yesterday showed that gross domestic product grew 0.3 per cent in the first three months of the year compared with the previous quarter, slightly higher than a provisional estimate of 0.2 per cent.

The news, confirming the recession is officially over, was underlined by a similar upwards revision to GDP excluding oil and gas production, a more reliable guide to the underlying strength of the economy.

It rose by 0.7 per cent quarter-on-quarter compared with a provisional estimate of 0.6 per cent. This was the strongest rate of growth since the 0.8 per cent rise registered in the first quarter of 1990, just months before recession enveloped the economy.

Both GDP and GDP excluding oil and gas were 0.7 per cent higher than in the same quarter a year ago.

Detailed figures of GDP by expenditure suggest that the recovery is being led by consumer spending. It rose 0.5 per cent in the first quarter compared with the previous quarter, to stand 2.1 per cent up on a year ago.

Total investment in the economy rose by 0.3 per cent quarter on quarter and was 0.9 per cent higher than in the same period a year ago. Quarterly figures for stock building were not yet available.

● Industry review backs tighter control ● Lamont endorses change ● Main lenders urged to join SROs

Financial services industry faces regulatory reform

By Norma Cohen, Investments Correspondent

BRITAIN'S Securities and Investments Board (SIB) is making sweeping changes to the way it oversees the self-regulatory organisations for the financial services industry.

The changes are outlined in a report commissioned by the Treasury last summer in the aftermath of the theft of more than £440m from pension schemes controlled by the late Mr Robert Maxwell. Mr Andrew Large, SIB chairman, was asked to review the entire regulatory system.

He stopped short of scrapping the two-tier system which relies on self-regulatory organisations (SROs) to enforce rules broadly set out by the SIB. "What I have tried to do is to make what we've got work better," he said. The case for scrapping the system was not compelling, he added.

Mr Large's report boosts the proposed creation of a Personal Investment Authority, intended to be the SRO for all retail financial services. The formation of such an authority is central to the success of the new regulatory regime.

Mr Norman Lamont, chancellor of the exchequer, yesterday gave an unqualified endorsement of the changes and said he would keep the area under review.

In his report, Mr Large concluded that it was too-lax supervision of the self regulatory organisations by the SIB which led to the Maxwell affair, widespread mis-selling of life insurance and pensions and manipulation at the Futures and Options Exchange.

Under the new system, the SIB will monitor the activities of the SROs more closely, including setting performance targets.

The SIB also said it would take a higher profile in the enforcement activities of the SROs, closely monitoring cases it feels are significant.

The board of the SIB will also be re-constituted to emphasise its public interest. A majority of non-executives will come from outside the financial services industry.

Yesterday, chairmen of the SROs gave a cautious welcome to the report, saying tighter supervision of their activities was inevitable after the Maxwell affair. However, they expressed concern about the SIB conducting its own supervisory visits to member firms.

The report warns that if the SIB does not win co-operation for the new regulatory approach, alternatives will be found.

Mr Large said the SIB wished to reduce its role as a direct regulator and will encourage those which it now regulates, particularly banks and building societies, to become members of an SRO. The life insurance industry has threatened to boycott the PIA unless the banks and building societies join as well.

The report also calls for a study of whether the SIB could centrally collect prices on securities transactions which are now off-market in an effort to monitor instances of market manipulation and insider dealing.

The study will also consider whether there is a role for the SIB as a "policeman" taking on some duties of the Department of Trade and Industry and whether it could punish wrongdoers and engage in "plea-bargaining" with guilty parties.

The Securities and Investments Board is considering a possible new central "facility" to gather reports of different types of transactions in individual securities and derivatives, some of which are not reported to regulators.

It is also assessing what steps to take, if any, to deal with the way exchanges are reacting to challenges posed by "non-exchanges," such as Reuters' Instinet service.

"If the insider dealing and market manipulation legislation is going to work," said Mr Andrew Large, SIB chairman, "we have to have an intelligence system." The proposal for a new facility, is mentioned in the Large report. "This would significantly enhance the provision of vital raw material for preparing cases . . . of market manipulation and insider dealing," the report says.

The facility, which might be a central computer database, would bring together in the regulators' hands for the first time records of many different types of transactions. In particular, it would provide details of transactions currently not reported to regulators, such as over-the-counter futures and options contracts.

The initiative has been urged by the London Stock Exchange, and has support from the Securities and Futures Association.

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Polite tradition favours Maastricht in the Lords

By Alison Smith

PEER PRESSURE and the force of convention in the House of Lords are being invoked by ministers as they seek to take the initiative on the Maastricht bill and secure its swift and safe passage through parliament in the next two months.

Government business managers have drawn up a provisional timetable, which would mean that the legislation was passed and the pre-ratification social chapter debates took place before MPs and peers dispersed for the summer, probably in late July.

But the plans depend on Euro-sceptic peers of all parties keeping within the traditions of the Lords.

Ministers believe that rebels will not make interminable speeches nor put down vast numbers of amendments, since these would alienate potential dissidents, who might well regard them as abuses of the Lords' relaxed procedures.

Alternatively, there is the scarcely veiled threat that if that confidence is misplaced, the government could make the House sit into the early hours of the morning to get through the business.

Ministers have already begun seeing backbenchers, and Mr Douglas Hurd, the foreign secretary, is to meet Tory peers before the Lords embarks on the line-by-line consideration of the bill in committee. The Lords will hold a general two-day debate on the bill immediately after the recess.

Peers will then have four days for the committee stage of the bill, two days for the report stage, and one to give the bill a third reading.

Baroness Thatcher is expected to make no more than a couple of high-profile speeches during discussion of the bill, but other Euro-sceptics – for the moment at least – are intending to put down hundreds of amendments.

As in the Commons, most attention is likely to focus on the social chapter and on the campaign for a referendum.

Mr Terry Venables, chief executive of Tottenham Hotspur, leaves the High Court yesterday after surviving another attempt by Mr Alan Sugar, chairman of the London soccer club, to dismiss him. An injunction enabling Mr Venables to remain chief executive was upheld. More than 500 fans opposed to Mr Sugar protested outside the court, which postponed the hearing for two weeks.

Pylons to carry telecoms network

By Andrew Adonis

THE NATIONAL Grid Company won a government licence yesterday to build a public telecommunications network in competition to British Telecommunications and Mercury, and promised to start a price war as early as next spring.

Energis, National Grid's new telecoms subsidiary, intends to use its pylons to install a new fibre-optic telecoms network between large towns.

It plans to have a network covering 17 of the 23 major towns and cities in England and Wales operating by next April.

Scottish Hydro-Electric also gained a telecoms licence yesterday. It too intends to use its network to offer phone services, but is looking for a joint venture partner to undertake the telecoms side of the business.

Energis is budgeting to spend £100m on its fibre-optic network in the next year. Although its pylons network does not extend to Scotland, it is looking to arrangements with Scottish carriers – including Hydro-Electric – to provide a network north of the border.

Energis is negotiating to inter-connect with BT's local network to deliver calls the last leg to businesses and private customers.

It is also starting inter-connection talks with cable TV companies, 58 of which are building local telephone networks in conurbations. This could enable it to by-pass BT over much of the country.

Mr Gordon Owen, Energis chairman, predicted that the company would soon be "the third force" in UK telecoms.

Four public network licences have been granted since the government decided to open up the UK's fixed-network telecoms market to new entrants two years ago.

National Grid is jointly owned by the 12 regional electricity companies in England and Wales.

Four other electricity companies have also applied for telecommunications licences: ScottishPower, East Midlands Electricity, Yorkshire Electricity (through a joint venture with Kingston Communications), and Norweb. The applications are still under consideration.

UK investors contact El Pais and La Repubblica

By Raymond Snoddy

A NUMBER of expressions of interest have been received from potential UK investors in Newspaper Publishing, owners of The Independent and the Independent on Sunday.

Contacts have been with the merchant banks advising the main shareholders; S.G. Warburg for the company and Schroders for the principle shareholders – El Pais of Spain and La Repubblica of Italy.

Chief Executive Mr Andreas Whittam Smith is trying to attract a new UK shareholder to take a stake of 10-20 per cent. A new shareholder would be seen as a counterbalance to the Spanish and Italian investors who each hold 18.3 per cent.

Early next month the main investors will discuss future policy following the failure to buy The Observer sunday newspaper from Lonrho.

Raising a mixture of debt and equity to fund both promotion and development of the titles is most likely.

El Pais and La Repubblica appear to to be seeking a consensus on policy rather than launching an aggressive bid; although they are prepared to take a majority stake if necessary.

NEWS: UK

Lloyd's chief appeals for deal with members

By Richard Lapper

ANGRY LOSS-MAKING Lloyd's Names were yesterday urged to "give peace a chance" and participate in new negotiations to achieve an out-of-court settlement to the legal actions dogging the insurance market.

The call was made by Mr Peter Middleton, chief executive, who was presenting Lloyd's business plan in London to an audience of some 2,800 Names – the individuals whose assets provide Lloyd's capital.

Judging by the atmosphere at yesterday's meeting – which was frequently interrupted by angry hecklers – a deal could be hard to achieve.

Stressing that it was impossible "not be moved" by the fate of many ruined Names, Mr Middleton said: "We are not made of stone but we are not made of money either."

He said that Sir Michael Kerr, a privy counsellor and former high court judge, has agreed to chair a panel which will assess the relative strength of Names' claims.

Sir Jeremy Morse, the former chairman of Lloyds Bank, will chair a second panel which will investigate the financial contributions which might be available for a settlement.

"Sir Jeremy will have absolute access to the financial knowledge of the society," said Mr David Rowland, chairman.

Lloyd's will hope to persuade errors and omissions insurers – which cover Lloyd's agents against legal awards – to contribute to a deal. Further cash could come from Lloyd's central fund, which meets insurance claims when Names cannot fulfil their obligations.

A settlement is seen as vital element in Lloyd's business plan published last month. The plan aims to cut costs, restore profitability and attract new capital to a market which has suffered more than £6bn of losses in the last five years.

Lloyd's hopes to make an offer to many litigating Names by the end of September. But both Mr Middleton and Mr Rowland stressed that only limited funds could be made available and that the effort would concentrate primarily on claims on E&O policies which affect the 1989, 1990 and 1991 years. Lloyd's also had to take into account the interest of the Names who are members of syndicates underwriting E&O policies.

A market committee has reported that for syndicates in the so-called "spiral" – the business of reinsuring the catastrophe losses of other syndicates and companies – E&O funds of between £690m and £940m might be available, compared to Names' losses of more than £1.8bn.

Mr Michael Deeny, chairman of the Gooda Walker Action group, which represents the biggest group of loss-making Lloyd's Names, said he was "extremely sceptical about these proposals. We have had panels, committees and reports before. In any event we will press on with our litigation regardless of these proposals."

Bank faces writs over regulation in BCCI affair

By Andrew Jack and David Owen

THE BANK of England has been accused of failing to act responsibly throughout the 12 years it regulated the Bank of Credit and Commerce International, in three separate writs lodged in the High Court.

The writs are from the four UK liquidators at accountants Touche Ross, the three Luxembourg liquidators to BCCI and from a group of depositors led by an English local authority, in a set of co-ordinated claims for damages and interest against the Bank of England.

The writs say the Bank deliberately contravened the regulations on the 1979 and 1987 Banking Acts by granting BCCI a full licence "in bad faith" in 1979, which it failed to revoke at any time between October 1987 and July 1991.

The writs seek to circumvent the immunity introduced in the 1987 Banking Act on actions over regulation except where there was a case of "bad faith".

They allege the Bank "deliberately, repeatedly and unlawfully" relied on assurances given by the LBC and IML, the Luxembourg bank regulators, and failed to supervise BCCI SA and BCCI Overseas.

The Bank of England yesterday reiterated its belief that it had "a complete defence" and refused to comment on the detailed allegations.

The Bank is not thought to have been sued under banking law before.

Experts yesterday pointed out that approval to proceed had been granted by Sir Donald Nicholls, the vice-chancellor – one of England's most senior judges.

The Bank of England was criticised for its role as regulator by a US inquiry chaired by Senator John Kerry, and in the UK in a report by the Treasury select committee.

The liquidators were advised that they could not sue the Bank on behalf of BCCI as a company but that action by individual depositors had "a fair prospect of success". There were 150,000 accounts in BCCI SA who could join the liquidators' action.

The legal action comes as the liquidators to BCCI prepare for a mass meeting of creditors at London's Wembley Arena tomorrow to elect a formal creditors' committee.

It also emerged yesterday that the Isle of Man Depositors Protection Association, representing BCCI customers, has written to object to the nomination of the island's Finacial Supervision Commission as a candidate for the committee. The association claims the commission does not represent them adequately.

Ministers discuss Ulster blueprint

By Tim Coone in Dublin

THE BRITISH government yesterday outlined its new blueprint for the political structure of Northern Ireland at a meeting with Irish officials in Dublin.

The meeting between Sir Patrick Mayhew, Northern Ireland Secretary, and Mr Dick Spring, the Irish foreign minister, failed, however, to produce any new initiatives to kickstart the stalled multi-party talks on the province.

Although the meeting was officially part of the Anglo-Irish conference on security matters, it had been hoped that it might give new momentum to the talks process following the province's local elections last week.

But Sir Patrick Mayhew, Northern Ireland secretary, said the UK government's proposals were still incomplete and would anyway only be presented "as and when the talks resume".

The British blueprint would not be "an agreed paper between the two governments", he added.

Mr Dick Spring, the Irish foreign minister, said he was satisfied there would be further consultations between London and Dublin before the British paper is completed.

Negotiations with Northern Ireland's unionist and nationalist political parties was abandoned last November without agreement on new political structures. The refusal by the hard-line Democratic Unionist Party to join the talks until the Irish Republic relinquishes its territorial claim to the province, continues to be the main hurdle to further progress.

Sir Patrick Mayhew (left) with Dick Spring yesterday. Meanwhile it was announced that Sir Patrick, a former attorney general, will give evidence to the arms-for-Iraq inquiry tomorrow. He has denied claims that he tried to prevent evidence about the Supergun affair coming to court

Sir Patrick said articles two and three of the Irish constitution that set out the Republic's territorial claim on the province, were "a significant factor" in the way of progress.

Mr Spring reiterated his government's position that he would not accept preconditions and appealed to the unionists for dialogue.

Both ministers said they intend to initiate private meetings with the leaders of Ulster's main political parties, in an attempt to establish the basis for fresh talks.

Sir Patrick welcomed the moves by the republic to amend extradition legislation "to close loopholes that have recently been opened up by judicial decisions.

"Never has there been a higher level of co-operation".

Britain in brief

ECDG sale 'reasonable', says auditor

The government substantially achieved its objectives in selling the short-term insurance business of the Export Credits Guarantee Department to NCM, the Dutch insurance company, according to the National Audit Office.

In a report on the sale published today, the public expenditure watchdog says that the sales proceeds of £20m were reasonable in the circumstances. The direct expenses of the sale – at £6.7m – reflected the unusual complexity and specialised nature of the sale.

The NCM bid was the lower of the two bids received for the sale – the government was offered £25m for the business by Generali, the Italian insurer. However, the NAO says that the successful bid more closely met the other objectives of the sale, such as ensuring that the purchaser would provide the maximum credit insurance support to the the widest range of UK exporters.

Top companies meet Heseltine

Top executives from 18 big companies met Mr Michael Heseltine, trade and industry secretary, to discuss the economy and industrial competitiveness. Mr Heseltine said after the three-and-a-half hour meeting that that the discussion had been "very constructive" and "an interesting unscripted dialogue".

The meeting is expected to be the first in a series of gatherings between Mr Heseltine and executives from the same businesses as part of his effort to produce a better framework for industrial growth.

The companies have agreed to send Mr Heseltine confidential sales data every few months to help him monitor Britain's expected economic recovery.

Jury out on 'Not Proven'

The Scottish Office is to review the Not Proven verdict which is used in Scotland when juries do not wish to find an accused person either guilty or not guilty.

The review follows increasing public concern in Scotland about the not proven verdict, culminating in a petition seeking its abolition which attracted 60,000 signatures.

Juries in criminal trials in Scotland have since 1728 been able to choose between returning verdicts of guilty, not guilty and not proven. A not proven verdict counts as an acquittal.

Miners' co-op needs £3m

Monktonhall Mineworkers, the miners' co-operative which is leasing a mine near Edinburgh from British Coal, needs a capital injection of £3m to overcome its financial crisis and become viable.

A report by Quayle Munro, the Edinburgh merchant bank, says that Monktonhall is unable to develop new coal faces because of lack of finance which is due to initial underfunding and to subsequent operating losses. The losses have exceeded the £1.6m of initial capital, all of which came in £10,000 subscriptions from the 160 miners.

Quayle Munro said the company had failed to reach break-even since January, but was capable of earning "potentially attractive rates of return at increased volumes at current market prices."

● The High Court will rule today whether British Coal can go ahead with the closure of the first 10 coal mines in its closure programme. BC asked for a declaration that its use of Boyds, the US mining consultants, amounted to the independent scrutiny of the closure process demanded by the High Court last December.

Brittan award

The FT's chief economic commentator Samuel Brittan was presented with the Légion d'Honneur at the French finance ministry by Jean-Claude Trichet, French Treasury director.

MANAGEMENT

In the wake of scandals, bribery and corruption European companies are trying to become more ethical

Laying down a code of honour

Italy's corruption scandal – which moved to the telecoms sector last week – has highlighted the risks for senior executives of bribing their way to bigger profits. But the problem is not just one for individuals and the courts. The recent series of arrests in Rome and Milan has demonstrated the damage which can be inflicted when internationally respected corporate names are dragged through the dirt.

While Italy may be the most topical case, corruption and how to prevent it are important issues elsewhere in Europe too. In Britain, for example, Stanley Kiaer of the Institute of Business Ethics believes the number of misdeeds may have increased slightly during the recession as the lax ways practised during the 1980s came unstuck. But he argues that the long-term trend is for companies to be more ethical.

Recent corporate scandals such as the dirty tricks campaign waged by British Airways against its smaller rival, Virgin Atlantic, have caused a shudder to run through British boardrooms. There is now a growing awareness of the impact of such revelations on staff morale and on relations with the outside world.

According to a survey conducted by the Institute of Business Ethics last year, 30 per cent of large companies had such a code; many more were considering adopting one.

Fear of scandal is not the primary impetus, according to the experts. Other surveys show that customers place high importance on the reputation of their suppliers, that employees want to be treated fairly and that shareholders want greater accountability.

Banco Bilboa Vizcaya, BBV, is not the only Spanish institution to have been caught out in allegedly corrupt dealings with the government – but so far it is the corporation that has most publicly sought to make amends. Its recent publication of a code of conduct for senior executives was a highly unusual step for a Spanish company.

Judicial investigations into what is known as the Filesa case, after the apparently bogus Barcelona-based consultancy company controlled by Socialist party members, have suggested that BBV paid close to Pta200m (£1m) to Filesa before the 1989 election.

Taking the blame was the easy part for the bank. It placed it squarely on a past, and now dead, chairman who was known for his friendly relations with the socialist government. Present chairman Emilio Ybarra told the bank's AGM that when his predecessor ordered the payment for the Filesa reports; "It was because he thought them opportune and convenient". Ybarra left the matter at that.

The ethical code is a 12-page document that deals with confidentiality, conflicts of interest, lending policies and related issues. It does not mention the Filesa scandal. But it specifically calls upon BBV's senior executives to refrain from any action involving the bank group in which, directly or indirectly, they might have particular interests.

If preoccupation with business ethics is new to Spain, the same cannot be said for Scandinavia. Sweden takes the problem seriously enough to have set up a special body to help tackle it. The Institute against Corruption, which keeps companies up to date about codes of practice and legislative changes, was established in 1923 and is backed by organisations including the Stockholm Chamber of Commerce and the Swedish Federation of Industries.

"Inside Sweden serious bribery, involving thousands of kronor, is unusual both in the public and the private sectors", says Thorsten Cars, the institute's chairman. "But there is a feeling that the problem is getting worse at another level in that Christmas gifts, study trips and business entertainment are getting more lavish," he states.

Recent attention has centred on "buddy loans" – where banking executives are offered inducements from clients seeking big loans. Cars said legal cases so far indicated the problem involved those at middle management levels rather than top bank executives.

Recent German corruption cases have largely tainted the country's politicians. Quite apart from that, however, the brutal tactics increasingly used by companies in the recession have led to talk of a "moral crisis" in German industry and widened the debate on ethics.

For example, the case of José Ignacio Lopez, recently recruited to Volkswagen from rival General Motors and accused of unfairly trying to poach former colleagues, has raised the question of what is acceptable corporate behaviour.

"At a time when companies are fighting a desperate battle to restore profitability, ethical considerations are not the first priority," says Gertrud Höhler, the Berlin-based communications guru who advises many large German companies. "His [Lopez's] tactics have unleashed great indignation," says Höhler, "but at the same time his hardness and his relentlessness convince many that he is exactly the right man for the job."

Count Augustinius H. Henckel-Donnersmarck, a Düsseldorf-based monk who advises on ethical issues disagrees. He told Wirtschaftswoche, a weekly business magazine, that Lopez's tactics threatened to undermine capitalism.

"Management immorality begins at the very point where managers stop fulfilling their obligations to other members of society," he said.

The French, meanwhile, appear to be displaying their customary sangfroid. Every local businessman knows what "fausse facturation" means – inflating invoices with the extra going to line the pockets of national or local politicians who award contracts. But none will admit their companies need to take any special measures against it, beyond what already exists in French law.

Since 1988, France has had legislation providing for some public funding of political parties' or candidates' expenses, and limiting the amount which companies can give. A company cannot provide more than 10 per cent of a parliamentary candidate's expenses, up to a limit of FFr500,000 (£60,000). Any such gift must also be reported.

This mixed regime of public funding and private disclosure has not, however, prevented some recent scandals, with companies conniving at false billing in the interest of winning favour and/or contracts from politicians, mainly at the local level. It is the construction industry which seems most prone to the temptation.

The tendency is to blame the politicians for soliciting bribes rather than companies for giving them. As in Germany it is the former who have been prosecuted, not the latter.

"No special code of conduct for companies exists at the national level", said an official of the Patronat employers federation, adding he knew of no company which had instituted formal anti-bribery rules.

Bouygues, France's biggest contractor, said it had no code of conduct. "The idea of voluntary rules going beyond what is in the law is very Anglo-Saxon", said the Patronat official. "We regard state control as sufficiently tough for companies not to have to make any special effort to sensitise their employees to it."

Reporting by David Buchan, Christopher Brown-Humes, Tom Burns, Lucy Kellaway and David Waller.

The moral maze

Over 500 business ethics courses are currently taught on US campuses. More than 25 textbooks and three academic journals are dedicated to the topic. And at least 16 business-ethics research centres – and several university chairs – have been established.

Despite significant interest in the subject, though, managers in the US are probably bewildered, claims Andrew Stark, an assistant professor at the University of Toronto writing in the May-June issue of the Harvard Business Review.

Stark says it is not that managers dislike doing the right thing: over the years the problem has been an absence of practical advice on grey areas and how to cope when competitive and institutional pressures lead the well intentioned astray.

The old corporate social responsibility approach, he explains, held that the market would ultimately reward ethical behaviour. When it was clear that ethics and interests did come into conflict, though, academics became mired in absolutist notions of moral philosophy. Scholars too often took an unrealistic line, suggesting that a manager's motivation could either be altruistic or self-interested, never both.

Stark says professional ethicists are now starting to address the moral dilemmas that managers face on a daily basis. A new business ethics is emerging that acknowledges and accepts the messy world of mixed motives, where moderation, pragmatism and minimalism are legitimate concepts. He cites – approvingly – the former chairman of the Stride Rite Corporation, a \$500m (£333.3m) US manufacturer of children's shoes which combines a "long-standing, quasi medical dedication to foot care" with shrewd marketing (appealing designs and boutiques). Refusing to be drawn into the "ethics versus bottom line" conundrum, he is quoted as saying: "We're unashamedly out to make a profit and we're very much concerned about [children's] health... We run the business on both concerns".

A fuller article on business ethics in the US – featuring the Nynex telephone company – appeared on this page on May 14th.

Tim Dickson

NatWest publishes its principles

A strongly worded 10-page document has been sent to more than 90,000 National Westminster Bank employees in the last few weeks. It lays out the details of one of the more ambitious codes of conduct so far launched by a British company.

It says NatWest's priorities are integrity in its dealings, delivering customer satisfaction and creating opportunities for staff. It touches on conflicts of interest, criminal activities and accepting entertainment.

It is, as Neil Hartley, one of the executives most involved in its development, says "like putting up a white backcloth against which you can measure everything."

NatWest first published a "set of principles" in 1986. When it restructured in 1990, it decided to revise the guidance. Hartley insists that the changes were not triggered by the Blue Arrow affair.

At a time when the aim was to "empower" more managers and decentralise control, Hartley says that there was an ever greater need to maintain a "bedrock" of common NatWest culture.

A senior group of executives began working on the new code in the autumn of 1990. "There was an air of anticipation that the whole thing could be agreed and implemented within three months," says Hartley. "It took us over two years."

He says the previous principles were in parts contradictory and generally difficult to implement. They gave no idea of the bank's priorities. "They could only work in an organisation driven from the top," he says.

NatWest hired John Drummond, head of Integrity Works, an ethics consultancy based in London, to help develop the new code. Drummond stressed three points: the need for commitment from the most senior levels in the bank; to involve as many people as possible in the drafting process; and to make it clear that the code would be monitored and enforced.

More than 600 people were consulted during 1991 at all levels in the company. Discussion continued in 1992 as more reorganisation delayed the formal launch of the new code.

"There was very little scepticism," Drummond says. "The fact that organisations present themselves as ethically mute is irrelevant. People are very interested in talking about ethics."

Consultation lead to several changes. The tone became less intimidating. Accountability was increased with an annual report to the board on progress with the code.

A confidential hotline was launched to help with enforcement, which has taken more than 60 calls since it opened in April.

Andrew Jack

PEOPLE

Cleaver brings green concerns to nuclear agency

Sir Anthony Cleaver, part-time chairman of IBM UK, will take on the chairmanship of the United Kingdom Atomic Energy Authority (UKAEA) from July on the retirement of John Maltby, the former chairman of Burmah Oil, who has served his three-year term.

The UKAEA, which trades as AEA Technology, is a candidate for privatisation.

The DTI has already asked merchant bank BZW to examine the feasibility of a transfer into the private sector – which would not happen before 1995.

The agency's orientation is considerably more commercial than when mechanical engineer Maltby arrived describing himself as a "dirty-handed businessman whose job is to make money". For the year ended March 1992, it announced a profit of £16.8m, following a £40m loss for the previous 12 months.

Sir Anthony, who joined IBM UK in 1962 after taking a classics degree from Oxford, was chief executive from 1986 to 1991 and has been chairman since 1990.

Much of AEA's energy is devoted to helping companies adopt and exploit innovative technologies – often transferring technologies developed specifically for the nuclear industry to other kinds of business. Observers comment that Cleaver's experience at IBM, where there has been a shift from straight selling to customer service and joint problem-solving, should be an asset.

Cleaver's prominent advocacy of green business practices should also boost AEA's efforts to develop environmental expertise which includes a programme to advise governments on renewable energy sources.

In view of restricted government funds for nuclear research and development, AEA aims to increase the non-nuclear side of its business – presently at about 35 per cent of turnover – to about 50 per cent by the mid-1990s.

Padovan takes chair at Gardner Merchant

John Padovan is kicking off the Season in suitable fashion, by accepting the non-executive chairmanship of the largest contract caterer in the UK and Europe, Gardner Merchant.

Gardner Merchant, which was the subject of a £402m management buy-out in January, caters for a multiplicity of functions, ranging from Ascot and Royal garden parties to the Derby.

It also serves 74 of the FT-SE 100 companies. Padovan, 55, was off to the Chelsea Flower Show this week in the course of his first official function for Gardner Merchant.

But it is for his City know-how, rather than social graces, that the former deputy chairman of Barclays de Zoete Wedd has been hired. The company has set its sights on a stock market listing, possibly towards the end of 1994.

"We have sold more contracts in the first two months of this year than during the whole of last year," says Garry Hawkes, chief executive. He was referring to the days when the company found itself diverting resources to negotiations with Compass catering group, which in the end failed to buy Gardner Merchant.

Gardner Merchant has made particular progress in the public sector.

It recently won contracts for the World Bank in Washington DC, London Underground, and the Hong Kong airport construction site.

Padovan's other activities include the chairmanship of AAH Holdings, as well as non-executive directorships at Tesco, Whitbread and Hartstone and at a few private companies. He is also an adviser to BZW, where he was deputy chairman between 1989 and 1991.

He says he will be "rationalising one or two" of his portfolio of directorships and advisory posts.

Fyfe in line to head Devro

Devro International, the maker of edible sausage skins, is to announce the appointment of David Fyfe as chief executive designate when it produces a pathfinder prospectus later this week ahead of a stock market flotation.

Fyfe resigned last week as managing director of a division of Hickson International, the specialty chemicals group, where he had been hoping for a main board position.

Hickson chairman Dennis Kerrison said his departure was amicable. Fyfe was, however, unlikely to make it to board level early as the board was stable and set up like a continental supervisory board.

Fyfe will be in line to take over from Frank De Angeli, Devro's chief executive, who is 68. Devro is expected to be valued at about £170m.

From airways to airwaves

The former managing director of Air Europe is to be managing director of the newly formed resources, engineering and services directorate of the BBC.

Rod Lynch, 44, will take over from Bill Dennay, who has overseen the creation of the new directorate and retires at the end of this month after 37 years at the BBC.

Lynch is currently sales and marketing director with Forte Hotels.

He will have a seat on the BBC board of management and will report to Bob Phillis, deputy director general of the Corporation.

Phillis said yesterday Lynch would bring "a wealth of broad commercial experience".

Lynch had 20 years in the airline business, 18 of them at British Airways.

The new resource directorate brings together all the separate business units created under Producer Choice – the system which gives BBC producers the right to buy services in the outside market if they want to.

Public posts

■ Andrew Brown, a former group director at J Walter Thompson, has been appointed director general of the ADVERTISING ASSOCIATION; he takes over on May 1 from Richard Wade who is to become director of development at St Edmund Hall, Oxford.

■ Ian Aitken, senior Scottish partner of Watsons, has been elected president of The PENSIONS MANAGEMENT INSTITUTE.

■ John Drew, head of the UK Offices of the Commission of the European Communities, has been elected president of the INSTITUTE OF LINGUISTS.

■ John Heawood, a director of DZT Debenham Thorpe, has been elected chairman of the BUSINESS AND INDUSTRIAL AGENTS SOCIETY; he takes over from Neil Higson of Herring Baker Harris.

■ Iris Burton, editor-in-chief of Woman's Realm and Woman's Weekly, is joining the PRESS COMPLAINTS COMMISSION; she replaces Michael Clayton, Horse and Hound editor, who stood down in March.

■ John Stinton has been appointed general secretary of the BRITISH CLEANING COUNCIL.

BUSINESS AND THE ENVIRONMENT

Drax has ambitious plans to reduce its emissions, but they may be a red herring, writes **David Lascelles**

The high cost of cleaning up

Next September, engineers at Drax in North Yorkshire, Europe's largest coal-fired power station, will commission one of the most ambitious environmental clean-up projects in the UK.

The exhaust gases from the first of the station's six 660MW generators will be diverted from the chimney stack into a cavernous rubber-lined steel chamber where they will be sprayed with a mixture of water and limestone.

That slurry will absorb 90 per cent of the sulphur dioxide from the gases before they are passed back to the stack and emitted to the atmosphere.

During the following three years, the station's other five units will receive flue gas desulphurisation (FGD) plants of their own, so that by 1996 Drax should be able to shrug off its notoriety as Europe's dirtiest power station – though at a considerable price. The clean-up will cost National Power, Drax's owner, more than £700m.

The start-up of Drax's FGD plant will doubtless be hailed by the government as an important advance in its efforts to clean up Britain's power stations – and meet its international commitments on acid rain. But while the scale of the project is impressive, it could turn out to be something of an environmental red herring.

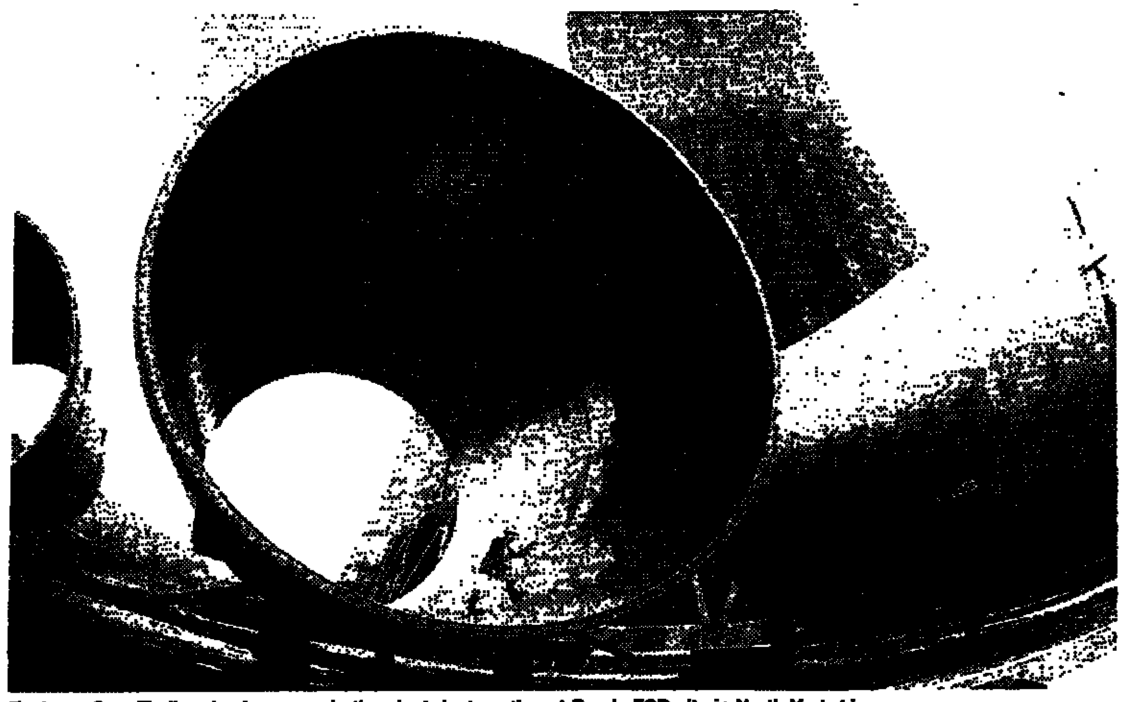
For one thing, only one of Britain's other 30-odd coal-fired power stations is having FGD fitted (Ratcliffe in Nottinghamshire owned by PowerGen). And for another, it looks increasingly as if other means than FGD will be used to achieve the bulk of the intended reduction in harmful emissions. Changes in fuel use, rationalisation of the bloated power station network and advances in fuel-burning technology are likely to play a much larger role.

At the international level, the EC's Large Combustion Plant Directive of 1988 sets targets for reduction of sulphur dioxide and nitrous oxide emissions (known in the business as sox and nox).

The UK successfully negotiated more lenient targets than continental countries because of the exceptionally large size of its power stations and the high sulphur content of British coal. From a 1980 baseline, it has to cut sox by 60 per cent by 2003 and nox by 30 per cent by 1998.

In both cases, reduction targets for other leading EC members are 10 percentage points higher.

In addition, the UK's Environmental Protection Act requires power stations to control pollution using the best available technology, not entailing excessive cost (BATNEEC). Just before Easter, Her Majesty's Inspectorate of Pollution issued a set of EPA authorisations for power plants intended to achieve a steady reduction in sox and nox by the year 2001 and meeting the EC targets.



Engineer Gary Fiedler checks seams in the giant duct section at Drax's FGD site in North Yorkshire

Unlike previous controls, which gave each generating company a "bubble" of emissions which it could share out among its power stations as it wanted, the HMIP's new authorisations will impose limits on individual stations as well. That is mainly to bring emissions down faster at stations which are sensitively placed, such as those in the Thames Valley or close to the Welsh hills or the Pennines. Drax, located near Humberside, where the prevailing winds carry its emissions out to the North Sea, gets more lenient limits.

But the overall effect of this will be to reduce the generators' flexibility, so the new rules effectively represent a tightening of standards.

The generating companies have a year to come up with plans to meet the new requirements, but it is already clear that an acceleration of FGD installation is most unlikely. Roger Witcomb, the director of corporate planning at National Power, says generators have the alternatives of running a power station less intensively, or simply closing it down and switching to cleaner fuels.

The choice will depend on many factors, one of the main ones being the large cost of FGD. Apart from the expense of the installation itself, FGD actually reduces the efficiency of a power station as it needs a lot of electricity to run.

Drax's FGD will add 0.6p to the cost of a kilowatt hour of electricity, nearly 25 per cent of the price that electricity fetches in the wholesale pool.

(There are cheaper methods. ScottishPower may clean up its Longannet station on the Firth of Forth with sea water, but this is not an option available to inland stations.)

FGD also carries an environmental cost. By adding to power demand, it pushes up emissions of carbon dioxide. It also increases the quarrying of limestone, and produces waste material which has to be disposed of (it will be buried at Drax).

In fact, the economic and environmental case against FGD is becoming much stronger. What may tip the balance decisively is the growing availability of natural gas as an alternative to coal.

For the price of its Drax FGD plant, National Power could have built two 1000MW gas stations which were not only thermally much more efficient but whose emissions were minimal.

Michael Reidy, corporate affairs director of PowerGen, describes FGD as a "negative investment" compared with the "positive" opportunities available for investing in new environmentally friendly plant.

PowerGen has not turned its back on FGD, he stresses (it has plans pending for an installation at its Ferrybridge station in West Yorkshire), but "we will address negative investments when we have to."

Ian Preston, chief executive of ScottishPower, is more blunt about it. "We will not invest in FGD if we can avoid it," he says.

He would far rather see alternatives, such as tradeable pollution permits, recently introduced in the US, which would allow him to take advantage of the fact that Scottish coal has a lower sulphur content than English. He would "sell" his pollution rights to English generators who needed them more.

All the generating companies are playing their cards close to their chests as they digest the implications of the new HMIP authorisations. But the broad message is clear. Only a few large power stations with long, active lives ahead of them will justify the cost of FGD. Old, inefficient stations face closure and the rest will be managed in a variety of ways, such as burning cleaner coal or operating fewer hours.

"There's a huge overhang of capacity in the market," Witcomb says. "Only big plant will be left by the year 2001."

The effect of this on the structure of UK power generation is becoming evident. The economics greatly favour gas over coal, and are encouraging a surge in gas-fired capacity which could replace as much as half the present coal-fired plant by the end of this decade.

That may be bad news for the miners, but it will lead to marked reductions in sox and nox – and also of carbon gases for which there is, at the moment, no commercially viable method of extraction.

The new economics is even giving encouragement to the nuclear power industry which produces no gaseous emissions. The government will be embarking on a review of the nuclear industry later this year.

Whether all this activity actually produces a sufficient cut in sox and nox to restore the environment, rather than merely to meet legal targets, will continue to be a matter for debate. Fiona Weir, a clean air campaigner at Friends of the Earth, says that HMIP's new authorisations were a "missed opportunity" to accelerate the drive to reduce acid rain. Britain is only doing the minimum necessary to meet standards which are generous anyway, and HMIP is not enforcing the introduction of the best clean-up technology.

The power industry, which still disputes the link between its emissions and the damage allegedly caused to lakes and plant life, says it is doing more than required.

Whatever the case, the EC is expected to tighten up the emission reduction targets when it meets to review the LCPD next year, and so the pressures will increase.

Body Shop treads thin green line

The UK-based retailer has set a fresh standard, writes **Andrew Jack**

Body Shop irritates the cynics, but its latest environmental report may soothe many of its greener observers.

The second edition of the UK-based retailer's "green book", published this week, is an uncommon attempt to push corporate accountability into less conventional areas.

It treads a fine line: part propaganda; part political tract; and part relatively objective, if incomplete, profile of the company's activities and effects.

About 5,000 copies of the colourful 30-page guide have been produced for distribution to shareholders and other interested groups. They list the company's future targets and current performance on topics such as energy, waste and "product stewardship".

"We want people to see environmental reporting as fun and accessible, as well as not being difficult for companies to do," says David Wheeler, general manager for environment, health and safety. "We want this to be a normal part of our annual reporting process, and we hope that others in the retail sector who make green claims will follow. They have nothing to lose."

While companies are increasingly producing environmental reports, few do so to rigorous criteria, are comprehensive, or allow meaningful comparisons between sites and the past. Fewer still are independently verified. Body Shop goes some way to meeting these points.

A statement from the board at the start says it plans to review the company's investment and pension arrangements during the coming year on environmental and social grounds. It also plans to make new investments in on-site waste-water treatment and plans to change its in-store refill service during 1993-94.

There are some interesting disclosures, not least that Body Shop expects soon to proceed with the construction of a wind farm in Wales in conjunction with National Wind Power, which would eventually match the company's energy requirements throughout the UK.

There is a clear set of targets at the start of the report for the end of this year and up to next February. These include eliminating the use of PVC, reducing the impact of packaging and conducting environmental reviews in all subsidiaries and overseas franchises.

But several of these targets are not quantified. That will make comparisons difficult. The issue crops up throughout the report. Electricity and gas energy consumption on a range of measures are only shown for last year, not the year before, for instance.

Body Shop's first green book had a verification statement from Arthur D Little, an environmental consultancy, which agreed to offer the service at cost price. This year it employed Environmental Resources Limited (ERL), for a fixed fee of £4,000; again hardly enough to be profitable. Richard Cane, one of the ERL consultants involved, says there were six people-days spent on site interviewing more than 30 Body Shop employees, inspecting documents, and making random visits. A further four days will be spent on a detailed report for management.

The verifiers are pioneers groping around in the dark with few guidelines to help them form a view. They drew up a six-page checklist based on elements mentioned in the EC's ecological management and auditing scheme, launched earlier this year.

The one-page verification statement included in the report veers away from the objective into the idiosyncratic and even the self promoting: "In our professional judgment the Body Shop can consider itself an industry leader for its initiatives," it concludes.

It is at least informative and individual, in stark contrast to the standard wording of the auditor's report in companies' financial statements. It is also partly critical, highlighting issues requiring further attention, such as greater documentation of procedures, responsibilities and training needs.

There are still weaknesses in the green book. But Body Shop has pushed the boundaries of reporting beyond those adopted by most of its rivals.

ARTS

Television/Ian Hargreaves

This beast is not for taming

From the moment that Mrs Thatcher instigated the process that culminated in the 1990 Broadcasting Act, Britain's television current affairs community sensed conspiracy and crisis. The argument ran as follows: irritated by programmes such as Thames's *Death on the Rock* in 1988, the Thatcher government set out to "tame" the BBC by installing new management and to distract ITV with a sweeping deregulation designed to force it to target ratings and profits rather than politicians.

Even though the final version of the Broadcasting bill preserved much of the ITV regulatory system, fears remained high. Now, it was said, the unequal outcomes of the ITV franchise round would so impoverish the network that difficult, unpopular current affairs would give way to gameshows, soap operas and movies.

Alongside this debate ran another, fuelled by the clash between John Birt, now director general of the BBC, and his opponents. Birt, through his work in the 1970s on *Weekend World*, a current affairs show made by London Weekend Television, and a couple of essays, argued that television should strive to analyse the world, rather than being fixated by arresting images of conflict, violence and emotion. This was Birt's "mission to explain."

Birt's opponents replied that this approach would lead to dull, cerebral over-schematic television which few would want to watch. More subtle critics pointed to the place of film-makers' logic in current affairs documentaries; the way that a shot or visual reference can lead to another, communicating more effectively than *Weekend World* type reasoning. Birt's view, some said, was essentially "anti-televison." His most passionate enemies said he wanted to kill off a rival tradition of narrative investigations. Birt has therefore been accused of providing cover, both in a managerial and programme philosophy sense, for those who wanted to tame the BBC.

As I sat through several hours of videotape at the weekend, I asked myself: *has this apocalyptic future revealed itself?* Has the combination of Mr Birt and the Broadcasting Act put TV current affairs on its deathbed?

In terms of quantity, the answer is decisively No. Since 1988, the BBC has become a current affairs factory, adding to the long-established *Panorama*, *Question Time*, *Newsnight* and *the Money Programme* programmes like *Assignment* (foreign subjects, authored documentary style), and *Public Eye* (domestic subjects, shorter documentary approach). On Sundays, it now even schedules political interview programmes against itself, as *Breakfast with Frost* precedes *On the Record.* What with Walden perorating away on ITV as well, there are hardly enough politicians to go round.

Channel 4, which is irritating everyone in ITV by grabbing too much advertising, persists with its successful mix of continuity and raw experiment. *Channel 4 News* remains consistently first-rate. *Dispatches*, a current affairs series of independent-produced documentaries, is solid and sometimes better than that.

On ITV's channel 3, the franchise round swept away Thames and with it *This Week*. An important casualty, it has been replaced by a prime-time mix of *3D* and *Storyline*, which are themselves to be succeeded this autumn by the ambitiously named *The Big Story*.

Granada's *World in Action*, which has won a reputation over three decades for inquiring, trouble-stirring journalism, is still there. Its audience is up from less than 6 million five years ago to an impressive 8m to 9m this year. It has just been booked for another prime time run in the autumn. At the BBC, current affairs ratings since the Broadcasting Act are also more or less stable. For the general current affairs programmes, old truths hold good: programmes on foreign subjects are less popular than domestic themes.

If this is the death of current affairs on TV, then I'm Joan Collins

Nor does this represent a complete account of current affairs. It does not include new offerings like *Street Legal*, Channel 4's law programme, or the chaotic but watchable LWT *Sunday Supplement*, where Edwina Curry fails to control exchanges between a studio audience and a Sunday newspaper editor. Nor does it weigh in the balance such ambitious projects as last week's *Crime and Punishment* on the criminal justice system or *Gimme Shelter* on housing. If this is the death of current affairs, then I'm Joan Collins.

But, ah, say the worriers, there may not be a problem (yet) of quantity or ratings, but what about the quality? There is space to cite only a few examples.

David Leigh's *Storyline*, debunking the evidence that MI5 bugged the royals, was well-reported and argued with, dare one say, a Birtian clarity. *Panorama's* report on pressures in Britain's Asian community – *Underclass in Purdah* – swept away a stereotype as only the best television can. I had not seen or read anywhere else what *World in Action* told me about Combat 18, a British far-right band of thugs with links to the Ku-Klux-Klan and the Ulster Defence Association. *Public Eye* told me things I did not know about the US groups involved in privatising British prisons. In recent months current affairs has tackled the monarchy, school tests, truancy, the old, prisons, Tory aid for the Bush campaign, tuberculosis, drugs, homelessness, bank charges, coal, oil spills, crime, arms dealing and the ambulance service, to mention only a few.

Television has also ignored ratings and stuck ruggedly to reporting events in Bosnia: both *Dispatches* and *Panorama* have made gripping contributions in recent weeks. Martin Bell's *Panorama* was particularly telling because Bell is no Birtian theorist, but was able by the sheer authority of his reporting to communicate in his characteristically terse style exactly what he thought we ought to think about the story he has reported with such distinction. For *Assignment*, William Shawcross contributed a fine film on Cambodia. Those who have followed *On the Record* this year will have emerged with insight into most of the big, running political dramas. *The Money Programme* needs a facelift and has a less sure touch about identifying the biggest stories, but remains commendably purposeful. I particularly enjoyed a recent film about the battle for control of Clark's, the shoe company.

This is not to say that everything is wonderful. I was irritated by the one-dimensional argument of last week's *Panorama* on working conditions; a 40-minute programme ought to have delved deeper than this caricature of wicked employer versus exploited worker and supportive trade union in explaining the important changes taking place in the UK labour market. *Public Eye's* programme on alternative medicine was too close to the "let's blame the authorities for everything" school of TV journalism. Surely consumers should be expected to take some responsibility for their choices? The same programme's enjoyable film on dog dirt could have done with more supporting facts about the scale of the medical problems and the reliability of the evidence.

It is also true that there are plenty of dull editions of all these current affairs programmes and that hum-dinging, government-shattering scoops are elusive; the truth is, they always were. Perhaps a government as hobbled as Mr Major's is beyond the target range of TV current affairs: by the time you have commissioned the film crew, the policy you were out to expose has been reversed.

It may also be that recent institutional changes in television will *eventually* weaken its journalism. Although the BBC seems to have won its case for a comfortable status quo on funding, the full effects of the new ITV regime have yet to work through; a wave of mergers seems likely to be the next big shift. Another fear is that independent production houses will provide an insufficiently safe haven for adventurous journalism, although this ignores Channel 4's experience and the fact that many adventurous journalists continue to choose to work for independents. Nor should it follow that a more competitive and diversely-owned commercial TV industry will yield less or even less good current affairs. Apart from anything else, factual programmes are cheap, compared with, say, drama.

Good journalism, especially work which involves months of digging, does benefit from an institutional framework which is free from undue political influence, strongly managed, reasonably settled and decently funded. But it also needs vigorous competition and change, because without it journalists become pompous and self-satisfied. I cannot see the evidence that the pace of change just now is too rapid.

Christopher Dunkley is on holiday. Ian Hargreaves is the FT's deputy editor. From 1987-90 he worked for the BBC, becoming director of news and current affairs.

The Golden Palm is torn in two

It has been quite a Cannes. Changeable weather brought scattered showers, sunny intervals and billowing white soap-suds. These last cascaded from the Palais roof in honour of Sylvester Stallone's arrival with his Alpine action thriller *Cliffhanger*. Havoc was created on the Croisette as the pseudo-snowflakes gradually turned to sudsy slush. But Cannes always turns to sudsy slush at the close. The old celebrities are wheeled out to to donate Golden Palms; the winners respond with arias of pretend surprise; and crocodile tears are wept by all at the end of another tiring and frequently tiresome junket.

But wait. This year everyone *did* seem to enjoy Cannes. The competition was as lively as I can remember. No four-hour Greek movies about alienated beekeepers: the worst ordeal was bumping into *Splitting Heirs* again and watching it turn on a slow spit of condemnation by the world's press. So much for Eric Idle's remark about "snotty British critics".

As for the prizes, who could quarrel with a Golden Palm torn in two and handed to Jane Campion's *The Piano* and Chen Kaige's *Farewell To My Concubine*? The Australian film is a dazzling tale of passion and puritanism at violent odds in an Edenic wilderness. The Chinese film brings 50 years of traumatic national history to life and gives the pageant a human pulse in its story of two love-crossed Peking Opera performers.

Meanwhile Britain's *Naked* won a Best Director and Best Actor prize for, respectively, Mike Leigh and David Thewlis. Wim Wenders won Special Jury Prize for his long, ambitious and ever so slightly cuckoo *Faraway, So Close*. And the only major injustice was that Kenneth Branagh's *Much Ado About Nothing* went prizeless, though it probably gave more people at Cannes more pleasure than anything since the invention of alcohol.

Back in the viewing-rooms the final days were the usual rush of movies, cross-cut like a Keystone comedy by the accelerated viewing schedule. (Must catch all those grapevine recommendations.) So one came out of Canada's *I Love A Man In Uniform*, all about a TV actor who dresses as a cop and shoots up Toronto, only to run straight into Hollywood's *Falling Down*, in which Michael Douglas dresses as a yuppie and shoots up Los Angeles. One laughed happily at *Desperate Remedies*, a camp New Zealand melodrama crossing the costumes of *The Wicked Lady* with the winking excess of *Strictly Ballroom*, only to have the smile steam-ironed off one's face by Australia's stultifying *Broken Highway* (Down Under attempt to do Tarkovsky).

No one can argue with this year's winners at Cannes, says Nigel Andrews

Next one experienced gentle catatonia at the new Hou Hsiao-Hsien from Taiwan, an austere epic of family life and political history called *The Puppetmaster*, followed by the jangling overkill of Elaine Proctor's *Friends*. This last, a British-co-funded production about three ex-university female pals in South Africa, is notable mainly for the performance as a white radical hell-raiser of Australia's Kerry Fox (*An Angel At My Table*). Fox smashes us straight in the face early on with her neurotic power, but then just goes on smashing. "Once more, darling, with *less* feeling" should have been the director's advice to his star.

Finally we saw two movies that stayed rather than melted in the mind or caused superficial mayhem there. One was Ken Loach's *Raining Stones*, a recession comedy set in a North England racked by daft entrepreneurialism and doleful wit. (More when it comes to England.) The other was Tian Zhuangzhuang's *Blue Kite* from China, shown out-of-competition in the Directors Fortnight.

This is another Eastern film playing private lives against public history. But its plain-spun pathos is more touching than *The Puppetmaster*, the tensions it depicts between political events and family emotions more subtle than *Farewell To My Concubine*. As an unseen narrator's voice recalls his boyhood, we watch three generations of parents and step-parents, aunts and uncles, friends and enemies traversing 30 years of purgatorial Maoism. They struggle to keep happiness intact in an age of political informers, Communist "consciousness-raising", rural exile and dawn raids by Red Army thought-police. The movie seldom leaves the domestic arena – kitchens, bedrooms, meal-tables – yet an entire social-political history is written into the minutiae of setting and behaviour.

For making this document about life under Mao, Tian Zhuangzhuang was denied a visa to attend the Cannes festival. More, even before Cannes the movie had to be completed and edited in Japan by others under the detained Tian's remote-control instructions. For those who doubt the beneficial role of international film festivals, here is one radiant reason why we need them. Would this brave movie otherwise have been seen by anyone – let alone by critics, distributors and fellow film-makers from every part of the world?

Holly Hunter with Anna Paguin in Jane Campion's award winning 'The Piano'

Opera

La Bohème

After almost 20 years of pretty well constant use this production of La Bohème has survived remarkably intact. The scene outside the gates of Paris is as evocative as ever, although the sudden downpour of snowflakes as the lovers start upon their parting duet is rather abrupt – one imagines stagehands in the wings shouting "Cue snow!".

Casts good and bad, Italian and otherwise, have passed through it. This one was not bad, but definitely otherwise; there was not an Italian to be heard. In an opera which entered the international repertoire virtually as soon as it was written, this might not seem to matter, but there was an above average proportion of accents hard to understand and vocal mannerisms that tried to sound Italianate, but failed.

The tenor is *Jerry Hadley* (except the last performance). He is a very fine singer, the voice firm, well-produced, clean and clear. But I did not believe in his Rodolfo for a moment. His first earnest glare into Mimi's eyes would surely have been an off-putting start to a relationship and the fussy acting did not ring true. The voice is not large enough, juicy or emotional. It is not his best role.

His Mimi is the Australian soprano Deborah Riedel, who is not very individual, but makes one feel that she means what she sings. Her portrayal is honest, each phrase given just the right colour, including a special limpid softness that can bring a tear to the eye.

There is no question of her competing as a personality with Karita Mattila, who provides a class act as Musetta. This is no low-grade tart, but a sharp-witted girl-on-the-make, who has learnt a thing or two from draping herself on rich lovers' arms, not least how to sniff out an expensive wine. She sang her music confidently, with lots of panache. Anthony Michaels-Moore is again a warm-hearted Marcello. Peter Sidhom is the Schaunard, and Mark Beesley the Colline.

A slowish tempo at curtain-up announced a conductor with ideas of his own, confirmed when the second act shot off at such a speed that the chorus was hard put to keep pace. Daniel Oren, a well-known figure in Italian opera-houses, was making his Royal Opera debut and did so to highly energised orchestral playing. At first his dynamism seemed invigorating. By the end, the many extremes of tempo and abrupt reversals of direction merely tried one's patience.

Richard Fairman

Further performances until June 18

Theatre/Alastair Macaulay

Horvárth's 'Oktoberfest'

Odön von Horváth was born in 1901, in what was then the Austro-Hungarian Empire, later Yugoslavia. And, though he died in 1938, his plays express with brilliant humanity and vision the break-up of old Europe, the ills of nationalism, the class system, unemployment, poverty, and police rule. *Tales from the Vienna Woods*, *Don Juan Comes Back from the War* and *Figaro Gets Divorced* have been shown here to great effect. *Figaro Gets Divorced*, in fact, is a modernist classic that should be widely performed.

Now one of our fringe companies, ACTreact (formed in 1990) brings us the British premiere of Horváth's 1931 *Kasimir und Karoline* – or, in this version, *Oktoberfest*. Munich's annual Oktoberfest – a fun fair, market and showground – is the locale; and the play turns out to be a German counterpart to the Rodgers-Hammerstein *Carousel*. The dominant image is the funfair's helter-skelter, and, as in *Carousel*, unemployment, theft, murder, sex and violence are disturbing presences behind the festival. Unlike *Carousel*, there is here no moral uplift; at the Oktoberfest you may well walk alone.

Kasimir has just become unemployed. He demands of his girlfriend Karoline that she show him the same loyalty as before, but she insists that she can no longer commit herself to him so unquestioningly. His jealousy, and her need to be independent and to do better for herself are both acutely, painfully, depicted. She wants to keep riding the helterskelter; he can't afford it. They break up, and he finds himself with pals who try to draw him into crime, while she gets caught up with rich old men.

Kasimir and Karoline are the flotsam and jetsam of this harsh world. When they meet again, at the play's end, they are both more vulnerable, both shocked by all they have seen – but it is too late for them to start again. And theirs are just two stories among several. The play shows us equally clearly the lives of the people with whom they get swept up, and it shows us a society shaped by economic depression. You remember a whorl of remarks like "Any intelligent person would be a pessimist," "There's no such thing as a bad person," "Unemployment is to blame," "People are so nervous nowadays," "I thought that I could see a better future" without remembering who said each one.

The ACTreact staging, directed and designed by Kevin Knight, gives you the play (though Knight's translation with Hans Rausch has a few obscenities that sound mighty anachronistic). The revolving set makes a rather slow helterskelter, but it occupies so high a proportion of the stage space and revolves so frequently that the wheeling motion becomes an unmissable metaphor, and makes Horváth's *Oktoberfest* as memorable an image of life as Thackeray's *Vanity Fair*.

The acting and pacing are too muted; and (as in *Carousel*) there are several too many Eloquent Silences. But the large cast (15) nonetheless make the play absorbing, and catch the tender humanity that underlies Horváth's bleak and acute view of things were in 1931; and are again today.

At the Lyric Studio, Hammermith, until May 29

INTERNATIONAL ARTS GUIDE

■ BONN

Oper Tonight, Sun, next Wed: Gian-Carlo del Monaco's new production of Cav and Pag, with alternating casts including Julia Varady as Santuzza and René Kollo as Canio. Sat: Puccini's Trittico staged by three women directors. Mon: Der Freischütz. Tues: Lucia Popp song recital. June 7: first night of Ken Russell's new production of Salome (773667)

Beethovenhalle Tomorrow: Dennis Russell Davies conducts an orchestral concert featuring Bartok's Viola Concerto (revised by the composer's son Peter) and Shostakovich's Tenth Symphony (773666)

■ COLOGNE

Philharmonie Tonight: Ensemble Vienna Berlin plays music by Reicha, Barber, Ligeti, Rossini and Hindemith. Tomorrow: Cherubini Quartet plays Beethoven. Fri: Hans Vonk conducts Cologne Radio Symphony Orchestra in works by Schumann and Peter Schat. Sat: Richard Strauss song programme with Württemberg Chamber Choir. Sun morning and evening: Mitsuko Shirai and friends in chamber music and songs by Brahms, Berg, Schoenberg and others. Mon morning: Dietrich Fischer-Dieskau reads from the Strauss/Hofmannsthal correspondence. Mon evening: Dennis Russell Davies conducts German Youth Orchestra in Schubert, Berio and Berg (2801)

Opernhaus Fri: Brigitte Fassbaender song recital. Sat: Entführung. Sun: Der Rosenkavalier with Margaret Marshall, Dolores Ziegler and Günter von Kannen. Next Mon and Wed: René Jacobs conducts Michael Hampe's new production of L'incoronazione di Poppea (221 8400)

■ COPENHAGEN

Tivoli Tonight: Bernhard Klee conducts Tivoli Symphony Orchestra in works by Ravel, Schumann and Mendelssohn, with piano soloist Lars Vogt. Sat: concert of opera arias. Sun: music from Cabaret. Mon: Lyngby Tarbaek Orchestra plays Grieg and Tchaikovsky. There are concerts on most evenings throughout the summer (3315 1012)

■ DRESDEN

DRESDEN FESTIVAL

Tonight at Semperoper, Bavarian State Ballet presents the Neumeier staging of Nutcracker. Fri and Sat: Lar Lubovitch Dance Company of New York. The dance programme at Kleines Haus includes the Polish company Teatr Scena Ruchu Lublin (Fri and Sat), Arila Siegert (next Tues) and Germaine Acogny (next Wed and Thurs). Szegedi Ballet from Hungary, directed by Zoltan Imre, gives guest performances on Sat and Sun at Schauspielhaus. The concert programme includes the Dresden Staatskapelle under Giuseppe Sinopoli at Semperoper (Sun morning, Mon and Tues evening, with soprano soloist Cheryl Studer), the Dresden Philharmonic under Marcello Viotti at Kulturpalast (Sun evening, Mon morning) and a song recital by Theo Adam on Mon morning at Semperoper. Next week's performances include a production from Siena of Monteverdi's Ulisse, a double-bill of operas by Tchaikovsky and Rakhmaninov staged by Peter Ustinov, and guest performances by the Stuttgart Ballet (486 6666)

■ FRANKFURT

THEATRE

Tonight and tomorrow, the Schauspielhaus is showing its new production of Schiller's Don Karlos, directed by Wolfgang Engel. Repertory also includes Shakespeare's Othello, Sophocles' Antigone and Schnitzler's Undiscovered Country. Kammerspiele has a new production of Ibsen's Hedda Gabler (2123 7444). English Theater Kaiserstrasse has Alan Ayckbourn's farce Taking Steps, daily except Mon till July 24 (2423 1620)

MUSIC

Tomorrow at Jahrhunderthalle Hoechst, pianist Stefan Vladar joins Ensemble Vienna Berlin in a programme of chamber music by Danzi, Mozart and Rossini (3601 240). The Alte Oper has Leonard Cohen in concert tomorrow (1340 400). The Opernhaus has William Forsythe's ballet Slingerland on Sat, Cimarosa's opera Il matrimonio segreto on Sun and Aribert Reimann's opera Troades on Mon. June 6: first night of new production of Meistersinger (236061)

■ HAMBURG

Staatsoper Tonight, Fri: Claus Peter Flor conducts Johannes Schaaf's new production of Entführung, with Schaaf as the Pasha. Tomorrow: Wolfgang Rihm's opera Die Eroberung von Mexiko. Sat, next Wed: La traviata with Tiziana Fabbricini. Sun: Christian Thielemann conducts Ruth Berghaus' production of Tristan und Isolde, with Wolfgang Fassler and Gabriele Schnaut. Tues: Il trovatore. June 10-27: ballet festival marking John Neumeier's 20th anniversary in Hamburg (351721)

Thalia Theater Sun, Mon, Tues: Bob Wilson's music theatre piece The Black Rider. Repertory also includes Shakespeare's Othello and Klaus Pohl's play about German xenophobia, Die schöne Fremde (322666)

■ LEIPZIG

Gewandhaus Tonight: Leipzig University Choir, Chamber Orchestra and vocal soloists. Sun: Enoch zu Guttenberg conducts MDR Symphony Orchestra in popular orchestral works. Mon: Emanuel Ax piano recital. Mon (Kleiner Saal): Felling Male Voice Choir of Newcastle. June 5-12: Gewandhaus Festival with guest orchestras from Paris, Munich and Prague (7132 280)

Opernhaus Fri: stage premiere of Stockhausen's Dienstag aus Licht, repeated Sat and Sun. Mon: Marek Janowski conducts concert performance of Parsifal, with Robert Schunk, Hans Sotin and Janis Martin. Tues: Le nozze di Figaro. Next Wed: Jonny spielt auf (7168 273)

■ LYON

The redesigned Opéra Lyon has just opened its doors with a string of new productions: Lully's Phaéton (tonight, next Mon and Tues), Les Contes d'Hoffmann (tomorrow, Sun), Coppelia choreographed by Maguy Marin (Fri, also June 4, 7, 8) and Debussy's Rodrigue et Chimène (Sat, next Thurs and Sat). Anne Sofie von Otter and Olaf Bär give a song recital next Wed. Pierre Boulez conducts a Ligeti and Birtwistle programme on June 9, and the St Petersburg Philharmonic gives concerts on June 10 and 11 (7828 0960)

■ MUNICH

Deutsches Theater Tonight, tomorrow: Rigoletto, staged production with young singers from Italy. Sat, Sun: Mikhail Baryshnikov's White Oak Dance Project (5523 4360)

Gasteig Tomorrow, Fri: Günter Wand conducts Munich Philharmonic Orchestra in Schubert symphonies (4809 8614)

■ STOCKHOLM

Drottningholm Tonight: Haydn's La fedelta premiata. Sat, next Tues and Thurs: Figaro, ballet pantomime after Beaumarchais choreographed by Ivo Cramer, with anonymous 18th century music arranged and conducted by John Lanchbery (660 8225)

Royal Opera Götz Friedrich's production of Die Meistersinger von Nürnberg is revived on Fri, conducted by Siegfried Köhler with designs by Günther Schneider-Siemssen (repeated May 31, June 5, 8, 15, 19). Repertory also includes Beryl Grey's production of Sleeping Beauty tonight, a ballet gala tomorrow and Cosi fan tutte on Tues (248240)

Berwaldhallen Fri: Leif Segerstam conducts Swedish Radio Symphony Orchestra in Strauss' Second Horn Concerto (Esa Tapani) and Berlioz's Symphonie fantastique (784 1800)

■ STRASBOURG

Théâtre Municipal Tonight, tomorrow, Fri, Sat: William Christie directs Les Arts Florissants in Jean-Marie Villégier's production of Marc Antoine Charpentier's Médée (8875 4823)

Palais de la Musique Tomorrow, Fri: Theodor Guschlbauer conducts Strasbourg Philharmonic Orchestra and Chorus in Mahler's Second Symphony, with Edith Mathis and Lucille Beer (8837 6777)

■ STUTTGART

Staatstheater Tonight: Stuttgart Ballet presents choreographies by Zanella and Béjart. Tomorrow: Fidelio. Fri, Sun, Mon: John Cranko's production of Prokofiev's ballet Romeo and Juliet. Sat: Ruth Berghaus' new production of La traviata (221795)

ARTS GUIDE

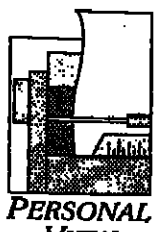
Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

(All times are Central European Time)

MONDAY TO THURSDAY
Super Channel: European Business Today 0730; 2230
Monday Super Channel: West of Moscow 1230.
Super Channel: Financial Times Reports 0630
Wednesday Super Channel: Financial Times Reports 2130
Thursday Sky News: Financial Times Reports 2030; 0130
Friday Super Channel: European Business Today 0730; 2230
Sky News: Financial Times Reports 0530
Saturday Super Channel: Financial Times Reports 0930
Sky News: West of Moscow 1130; 2230
Sunday Super Channel: West of Moscow 1830
Super Channel: Financial Times Reports 1900
Sky News: West of Moscow 0230; 0530
Sky News: Financial Times Reports 1330; 2030

Britain wrong on human rights



PERSONAL VIEW

September 3 is the 40th anniversary of the coming into force of the European Convention on Human Rights. There is much to celebrate. The convention is the jewel in the crown of the Council of Europe, an enlightened instrument for the collective enforcement of fundamental human rights.

But a cloud hangs over the festivities, for the convention system is in danger of collapse, and the British government is hampering the reforms needed to save it.

The crisis concerns the convention's enforcement machinery – the avenue for individuals to take their cases to the European Court of Human Rights at Strasbourg if their rights have been violated. The facts speak for themselves. It typically takes between five and six years from the time when an individual complains to Strasbourg until the court gives judgment. Since the claimant must have exhausted all effective remedies in his or her home country before complaining, the subject matter of the complaint may be six or more years old before it even reaches Strasbourg.

A period of some 10 or more years in which to obtain a remedy for a violation of fundamental human rights is grossly excessive and constitutes a denial of justice. If a contracting state permitted delays of this length in national legal proceedings, it would be in manifest breach of article 6 of the convention.

These problems will become even worse. From 1960 to 1983 the court gave a total of 76 judgments. In 1989 and 1990 alone the court gave 53 judgments. Within the past five years, the number of complaints made to Strasbourg has trebled. Five years ago, about 2,000 complaints were received annually; currently some 5,500 complaints are being received each year, and there is now a backlog of about 2,500 applications.

The convention was conceived when the Council of Europe consisted of 10 member states. Future enlargement of the council to 35 or even 45 member states threatens its very existence as an effective enforcement mechanism.

Bulgaria, Hungary, and Poland have recently accepted the right of individual petition under the convention. Estonia, Lithuania and Slovenia – the newest members – will doubtless follow suit. The list of new democracies from central and eastern Europe applying for membership includes Albania, Belarus, Croatia, the Czech Republic, Latvia, Moldova, Romania, Russia, Slovakia and Ukraine.

A conservative forecast, based upon present experience, suggests that the number of complaints and registered cases is likely to double, if not treble, within the reasonably foreseeable future. The existing machinery cannot conceivably cope, and tinkering or half measures will not be enough to enable it to do so.

Since 1985, two main reform proposals have been developed.

The case for a permanent and full-time European Court of Human Rights is cogent and compelling

First, there is a plan, supported by two-thirds of the member states of the Council of Europe, including France and Germany, to create a single, full-time European Court of Human Rights in place of the present two-tier system. This court would take over and absorb the functions of the Commission of Human Rights, which currently decides whether complaints are admissible.

Second, there was a scheme put forward by the Netherlands and Sweden for a two-tier jurisdiction, with the commission operating as a court of first instance and the court acting as an appeal tribunal, subject to leave being granted.

The case for a permanent and full-time court is cogent and compelling. A two-tier modification of the present system would not tackle the central weaknesses. It is likely that recourse to the second stage would become the rule, not the exception; and there would be continuing problems of wasteful duplication and unreasonable delay. Realising this, Sweden and the Netherlands have abandoned their two-tier scheme and now support the establishment of a single permanent court.

Meanwhile, behind the scenes, the UK government has procrastinated and prevaricated. At first it argued that there was no need to reform the present system in any significant way and that increasing resources would be sufficient. Now Britain professes support for reform but is backing the cumbersome and inefficient two-tier system.

We all rejoice at the emergence of the new democracies of central and eastern Europe. It would surely be more fitting for the UK government to give a high priority to strengthening the effective legal protection of human rights in those countries and at home. The UK is now as isolated on this issue in the Council of Europe as it is on the Maastricht treaty's modest agreement on social policy.

What matters now is that the necessary political support should be mobilised in Britain and across Europe to enable the court to meet the needs of the peoples of Europe. Otherwise, the convention system will soon collapse under its own weight.

It is vital that a new protocol amending the convention system is agreed when the Council of Europe's governments meet in Vienna in October. The UK government should give unequivocal support for a single and effective permanent European Court of Human Rights. Britain should be in the vanguard of the reform movement together with its European partners, rather than seeking political compromises to limit or dilute those reforms through a combination of English insularity and bureaucratic narrow-mindedness.

Anthony Lester

The author is a leading human rights barrister. His article is based on an extract from a recent lecture, to be published by Charter 88, 3-11 Pine Street, London EC1R 0JH

One firm hand on the tiller

F W de Klerk outlines his objectives in South Africa's negotiations for a new constitution

Mr F W de Klerk, the South African president, is not about to hand over power to a majority-rule, winner-take-all black government – not now, not ever.

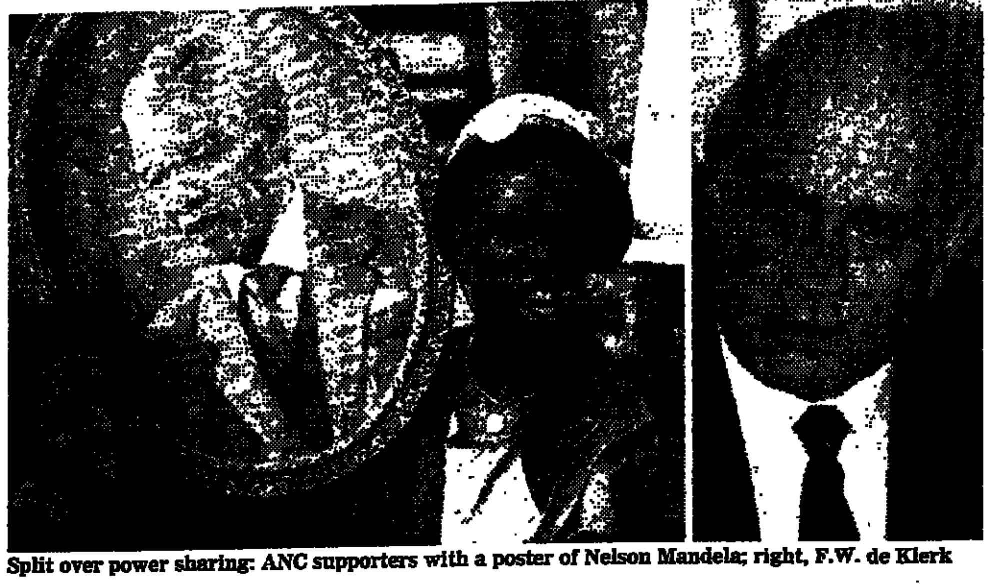
As the country's constitutional negotiators rush headlong to announce a date for the first multiracial elections, they would do well to remember Mr de Klerk's bottom line, made clear again yesterday in an interview with the Financial Times. He will only share power, not abandon it altogether; and the National party (which is now open to all, though it remains white-dominated) must be given what amounts to a veto on significant decisions within a coalition cabinet based on power-sharing.

Mr de Klerk refuses to use the word "veto", rightly concerned that his opposite number, Mr Nelson Mandela of the African National Congress, could never accept an overt white veto over the decisions of a black-dominated cabinet.

But since the day in 1990 when Mr de Klerk announced he would end exclusive white rule, he has never abandoned his guiding principle – that minority parties must be guaranteed a large measure of power in the new South Africa, meaning in practice that the National party must be promised a share of power, or there will be no deal. His oft-repeated vision of a happy multiracial future for South Africa is based firmly on the reality *that whites – through the* National Party – retain a share of power for the foreseeable future (providing they have a minimum level of electoral support).

This fact does much to deflate the optimism generated over the past few weeks by the 26 parties negotiating South Africa's new constitution. They have promised an outline constitutional deal by next week – in time to meet their self-imposed deadline of June 3 to set a date for multiracial elections. But they have yet to resolve the most fundamental constitutional issue of all: where will the real power lie in the new South Africa?

True, much progress has been made on this issue over the past year, as the gap has narrowed between the ANC's demand for majority rule and the National party's offer of power sharing. The ANC has agreed to a coalition cabinet, based on electoral support, to rule for five years after the first elections (due to take place next year); and it has



Split over power sharing: ANC supporters with a poster of Nelson Mandela; right, F.W. de Klerk

conceded that some decisions should be taken by consensus.

But ANC officials have so far offered to seek National party agreement only on the most important issues, such as the decision to declare war or a state of emergency, while Mr *de Klerk insists on consensus* on a broader range of issues. And, crucially, the ANC insists that power-sharing must be voluntary, not entrenched in the constitution. The National party is concerned that that ANC would not honour a voluntary agreement, once it had finally tasted power (especially if it wins a large majority of the national vote).

In yesterday's interview, Mr de Klerk made his demands clear: "We are talking about the need in a government of national unity – with regard to fundamental issues – for the country to be governed on the basis of consensus between the main role players."

"With regard to matters of average importance, one can always have an agreement as to how differences between them can be settled. But with regard to the fundamentals, there needs to be consensus."

Mr de Klerk protests that the concept of consensus – which he defines as a "meeting of the minds" through negotiation – is "psychologically and philosophically different" from a veto. But consensus can only be declared where no leading party dissents; and Mr de Klerk's opponents find it difficult to distinguish between enforced consensus, and veto.

What will concern them even more is Mr de Klerk's insistence that multi-racial power sharing must be a permanent principle of government in South Africa – despite the fact that three-quarters of the population is black, and that black leaders are prepared to countenance only a limited period of power-sharing.

Report by Andrew Gowers, Michael Holman and Patti Waldmeir

"We definitely believe that in a final constitution . . . the principle of power-sharing must be part of it," says Mr de Klerk. He concedes that power-sharing need not be achieved "in exactly the same way that it is achieved in a government of national unity". But the sharing of power inherent in an electoral system based on proportional representation and on maximum devolution of power to regional governments would be insufficient.

"There must be, to our minds, the limitation of power of any government also when it comes to the executive, not to such an extent that it must be a lame duck government, but to ensure as the founders of the American constitution [did] that there won't be misuse of power."

It requires a leap of faith to believe that the ANC will accept such limits to majority rule – that it will sign away its right ever to rule South Africa on its own. ANC officials categorically reject permanently entrenched power-sharing, and insist that even within the first multi-party cabinet, consultation with other leaders must be voluntary.

They may eventually accept Mr de Klerk's proposal for an inner cabinet, formed by leaders of parties with large electoral support (the ANC, NP, Inkatha Freedom Party, and possibly others); but it is hard to see the ANC agreeing to entrench this in a constitution.

It is especially difficult to see how big issues such as power-sharing – along with devolution of power to regions, and the mechanism for writing a new constitution – can be resolved in the eight days left before next week's deadline in the constitutional talks.

But Mr de Klerk remains optimistic: "The negotiation is progressing well in this regard [power-sharing]," he said, adding "I believe that a settlement and an agreement on how you structure a government of national unity will be achieved."

On the issue of devolution of power to regions, of crucial importance to parties such as the Inkatha Freedom party, the president seemed confident of early resolution: "I think common sense is prevailing. I've never worried about the possibility that on this issue we won't make progress," he said, noting that Inkatha is "well on board" the constitutional talks at the moment.

Mr de Klerk expressed little concern over other potential threats to the progress of negotiations, whether from the right-wing Conservative party or a potential alliance between the Conservatives and the Inkatha Freedom party. The CP had split, he said, and its moderate offshoot, the Afrikaner Volksunie, would continue to grow at the Conservatives' cost. He discounted fears of an alliance between the IFP and the Conservative party, because of the CP's demand for a racist white state, a demand opposed by Inkatha.

Similarly, the threat of the "lunatic fringe" of radical black and white supremacists was overestimated. They were receiving "too much attention", he said, adding that "the overwhelming majority of all South Africans are . . . reaching out towards an agreement that can bring stability and hope . . . an agreement which builds a bridge between, on the one hand, the need for security among those who have much to lose and the need for opportunity for those who have backlogs to catch up with."

Only time will tell whether Mr de Klerk's optimism is justified, though he may be more worried than he lets on. But his determination to fight his corner in the constitutional battle – to fight simultaneously for the moderate South Africans he hopes to represent in the next election, and for the Afrikaners he represents by birth – cannot be doubted.

"I'm committed to ensuring that the only workable alternative will be in place. We cannot afford to experiment with anything else," he insists. "I do not intend to sign a bad agreement". And if the ANC, or any of the other 24 negotiating parties, believes he will, they had better think again.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Expensive policy on older unemployed

From Elizabeth Drury.

Sir, Your report, "The mystery of a shrinking dole queue in a sluggish market" (May 20), highlights the removal from the unemployment statistics of unemployed men aged over 60.

This phenomenon, targeted at older unemployed persons, is widespread across Europe. Automatic (pre-retirement) benefits are paid, without the need to register for work, to the unemployed aged over 55 in Belgium, Denmark, France, Ireland, and the Netherlands; and to those over 58 in Germany. The Spanish unemployed *have* to take an early pension at 60, which entails a permanent 40 per cent reduction in their old age pension. No official statistics are recorded of these "hidden unemployed", but the numbers across Europe must now be significant.

Another "new" UK policy of encouraging the unemployed to register for sick benefits is also based on common practice on the continental, where many older workers "retire" from about 55 on invalidity pensions. In the Netherlands, early disability pensions are the main type of early retirement, and minor disabilities are sufficient to qualify, since labour market conditions form an integral part of the criteria.

The combination of these measures produces relatively low official unemployment rates for older workers across Europe. This has allowed governments to give lower priority to combating unemployment among over-50s. But in view of demographic trends which will increase the numbers of older workers in the next century, this could prove an expensive and short-sighted policy.

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Point missed on role of Tecs

From Mr Max Wilson.

Sir, Mr Ansel (Letters, May 19) fails to appreciate the vital role that Training and Enterprise Councils are performing and the level of commitment of their directors and staff. Tecs organise training for the many young people who do not wish to continue in full-time education, but who need job-related vocational training, leading to a national qualification. In Hampshire at any one time we support the training of some 6,500 young people.

Through their private sector directors, Tecs have a unique insight into the needs of employers. At the same time, they have detailed knowledge of the labour market. Drawing on this insight and knowledge, Tecs are well placed to ensure that the training provided is in line with both the needs and aspirations of the individual and the requirements of the labour market.

The work of Tecs in organising job-specific development of young people complements that of further education colleges. Tecs have productive relations with the further education sector, providing strong links with employers and support in widening the application of National Vocational Qualifications.

Max Wilson,
managing director,
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25 Thackeray Mall,
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First define money supply

From Mr R A Ledingham.

Sir, Before the Bank of England develops even more sophisticated measures of money supply, should it not be more precise in defining that which is being measured? ("Bank may use new measure of money", May 17).

An increase in interest rates (ie price) tends to reduce the "supply" of money. Either money reacts in exact opposition to market forces or M1 to M4 reflect money demand not money supply. In a closed economy, there will be a distinct correlation between retail money supply and money demand. In the UK's deregulated financial markets, with cross border, cross currency access to funding and derivative markets, such a correlation is far from certain.

Should we not be considering more sophisticated direct measurement of money demand? There could be two basic measurements, MD1 could aggregate short-term borrowings at variable interest rates (credit card balances) and MD2 could aggregate long-term borrowing at variable interest rates (mortgages).

MD1 would serve to measure the effect of short-term interest rates on the dynamics of the economy and MD2 would serve to remind us of how we got into the mess in the first place.

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The 'nuisance' wealth creators

From Mr Campbell Dunford.

Sir, I was astonished to read the comments by Professor Patrick Minford in Peter Marsh's article "Salmon succeeds beer and sandwiches" (May 24). If an adviser to the Treasury can state, "People from business are invariably a nuisance when it comes to talking about the economy", it explains much about the malign neglect and ignorance which our manufacturers have had to endure for many years.

Does the professor believe that wealth is created from thin air, and where, if not from taxed wealth, does this bemused academic's salary come from?

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Single institution is no answer for engineers

From Mr T J Evans.

Sir, Andrew Baxter's report, "Professionals who want manufacturing taken seriously" (May 11), builds a hypothesis on the foundation that UK manufacturing industry is undervalued and that the engineering profession is both underrated and underesteemed. It goes on to explore whether a single engineering institution and a centralised system to accredit courses would sharpen the image of engineering and then improve UK industrial performance.

Through a structured and representative attitude survey, chemical engineers have recently taken a view on the features they wish to see in a unified profession. Less than 5 per cent of chemical engineers support, as a preferred option, either a single engineering institution or a centralisation of authority in the new relationship between a reformed Engineering Council and the institutions.

We want real partnership with a central body which would then act primarily as a public relations focus for the profession as a whole. This is, in fact, the very proposal which was put forward by the presidents of the civils, mechanicals, electricals and chemicals in their November 1992 input to the Fairclough inquiry on the unification of the engineering profession. It remains an attractive alternative to the vision presented in the Fairclough Report, "Engineering into the Millennium".

Much has been made of the need for more "interdisciplinary" abilities in engineering. Success in interdisciplinary areas is not about training each individual with some kind of multidisciplinary tool kit, but rather about a high level of disciplinary specialisation. What we need are first rate groups of specialists able to appreciate each other's contributions and make effective contributions as a team.

Further, it is simplistic to see different branches of engineering as being any more closely related than are the science disciplines of physics, chemistry and biology on which engineering builds. We hear no corresponding call for a single science institution, nor do we find a single institution representing engineering in, say, the US or Japan. Indeed, as in the UK, these nations enjoy flourishing individual societies of chemical engineers.

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FINANCIAL TIMES
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Wednesday May 26 1993

Big test for Large ambition

THE REPORT on UK financial services regulation published yesterday by Mr Andrew Large, chairman of the Securities and Investments Board, has as its subtitle the phrase "Making the two tier system Work." That may also be its epitaph. By exploring what it will take to make the current system of regulation work, Mr Large has cast a vivid light on the difficulty of the task.

The upper tier to which he refers is the SIB. The second tier is its alphabet soup of "practitioner-based" self-regulatory organisations such as SFA, Lautro, Imro and Fimbra.

Mr Large is open in his criticisms of the way these bodies have worked in the past. He believes that in the early years, too much attention was focused on rule-making. The second phase of the SIB's history – a more relaxed approach to regulation known as the New Settlement – delivered less than it promised in the way of lightness of touch, while failing to keep the SROs up to the mark.

The SIB also allowed itself to become a rival to the SROs, by directly supervising too many financial services businesses which preferred to deal with it rather than one of the SROs.

Performance standards

"The question is not whether there should be change," says Mr Large, "but what changes should be made." He therefore proposes to change the SIB's role to one of setting performance standards for its flock of SROs, and of watching over them in a "more exacting" fashion, while withdrawing as much as possible from the business of direct regulation.

This approach lays bare the tension at the heart of the regulatory system, between protecting the public interest and leaving the industry free to grow.

Mr Large is cranking up the tension by stressing the SIB's unalloyed commitment to its public interest role and by promising to keep the SROs on a tighter leash. He says the SROs will welcome the clearer standards to which they will be kept, and will relish the challenge posed by the SIB's willingness to move into their patches to pick up on any derelictions of duty.

Maybe. It is just as likely, however, that the process of setting standards and establishing a new relationship between the SIB and the SROs will usher in a new period of navel-gazing, negotiation and backbiting inside the regulatory system. Such a process would divert attention from what Mr Large rightly stresses as the main priority, the enforcement of the public interest in investor protection.

Many risks

His answer to this worry is, in essence: trust me. He is aware of the risk, he says, and will not let it happen. In any case, what is the alternative? No one wants the upheaval involved in a whole new regulatory system; and the "single-tier" option (in which the SIB would subsume the SROs) would still need the sort of relationships now to be developed. If in the end, the two-tier system fails, then the new single-tier regulator can be based on the structure and attitudes now being sought.

Given the patent lack of political enthusiasm for new legislation, this may be a realistic view. It is none the less a disappointing one. A more radical approach to separating out the regulatory system's four tasks – the detection of fraud; the protection of consumers against unscrupulous selling practices; the prudential supervision of financial services business; and the enforcement of "fair dealing" in professional markets – would have been welcome.

In the absence of such an approach, too much of a burden falls on Mr Large's good intentions. Still, they are not a negligible force. He has already demonstrated them by telling the proposed new retail SRO, the Personal Investment Authority, to pull its socks up, and he seems prepared to take a tougher line with the insurance industry than his predecessors. Also, he has some challenging ideas: on plea-bargaining, on the need for a "central policeman" for the enforcement of securities law and on the impact of changing market structures.

Mr Large has chosen to stake his success not on his skill in drawing new structures, but on his ability to deliver within the existing one. The test lies ahead.

Job creation in France

WITHIN THE limits allowed by its adherence to a firm exchange rate, the new Paris government of Mr Edouard Balladur is at least trying to coax life into the recession-bound French economy. Mr Balladur's first two months in office has coincided with disturbing signs of deterioration in the real economy, but a strengthening of financial market confidence.

Mr Balladur is trying to use modest fiscal means to prepare the way for recovery, in a year expected to show the first economic contraction since 1975. But budgetary tinkering is likely to have a minimal impact on the outlook for growth and employment. He must also tackle deeper-seated impediments to job creation in the French economy.

The scale of the French employment problem is widely recognised. As the Organisation for Economic Co-operation and Development has pointed out, France's unemployment record since the first oil shock in 1973 has been the worst of any large OECD country. Employment expansion during the period of economic buoyancy of the 1980s was less than in any other member of the Group of Seven leading industrial countries. French civilian employment regained its 1974 level only in 1988. Unemployment has been on the rise since the end of 1990. Furthermore, the country's record in long-term unemployment and youth and female employment is comparatively poor.

Unemployment

Despite France's success in reducing growth in domestic unit labour costs, French companies now face a fresh squeeze on competitiveness caused by the European devaluations since last autumn. The government believes that the unemployment total, currently 3.1m, could rise by a further 350,000 by the end of the year.

In an attempt to limit the political costs of unemployment, the government on Monday announced a FFr40bn bond issue to help finance extra infrastructure spending and work schemes. The amount is relatively small, however, especially compared with the overall 1993 budget deficit of FFr410bn (including the social security and unemployment funds), to which Mr Balladur recently claimed France was heading. Nevertheless, the move softens the effect of deficit-cutting measures outlined two weeks ago. It was pounced upon yesterday by the Socialist opposition as evidence that the government was backing away from earlier promises of *rigueur*.

Monetary policy

On the monetary front, the Banque de France has this week managed to achieve a further downward nudge in short-term French interest rates, to slightly below the level in Germany. If the foreign exchange market's new-found scepticism about the D-Mark's stability proves durable, the Banque de France may be able to widen this gap in its favour. The new French base rate of 8.8 per cent is, none the less, nearly 7 points above the inflation rate – a heavy burden on enterprises, especially while Europe remains in the doldrums and demand for French exports remains depressed.

Mr Balladur needs to go beyond the monetary and fiscal steps so far announced. The exceptional burden on employers created by direct finance of the welfare state through large social security contributions gives French companies a particular financial incentive to minimise employment. Mr Balladur has already proposed reducing this tax on employment by shifting some financing of social security and unemployment funds away from payroll contributions towards general taxation. The initial move, however, is modest, with the planned shift limited to only FFr4.5bn this year.

If he decides to accelerate changes in this direction, Mr Balladur can rely on support from the EC. The European Commission's "framework for employment", expected to be adopted today, sets out a path which it hopes will lead to higher employment by cutting employers' social security contributions and promoting part-time employment. Mr Balladur's manoeuvering room is small. By indicating his interest in reforming France's system of payroll taxes, he has made a start towards putting job creation on to the agenda. He needs to go further. Most of the EC needs to accompany him.

The man in the middle

John Major expresses his convictions on inflation and Europe to **Ian Hargreaves**, and refuses to be politically pigeon-holed

An hour spent with John Major is an hour spent in middle England. At the end of an internecine year, which ended with his party's "bloody nose" in the Newbury by-election and which has now given way to torrid speculation about an imminent cabinet reshuffle, Mr Major is visibly tired.

So, has he spent the whole day poring over ministerial possibilities? No, he has been to the Chelsea flower show. What will he be doing after the interview? Talking to BBC television's Bookmark programme about his favourite author, Anthony Trollope, the 19th-century master of middle England's social and political life. And what is that hanging over the mantelpiece in the prime minister's study? A portrait of W G Grace, the legendary England cricketer, recently shipped from the National Portrait Gallery on Mr Major's personal instructions.

The prime minister's affection for a Britain of country lanes, warm beer and village cricket grounds is evidently more than a speech-writer's device to reassure doubters about his "heart of Europe" strategy. It is, indeed, the softer side of a politician best known as he rose through the ranks for his love of policy detail and the tactical machinations of the whip's office.

Once the interview is rolling, however, it is not long before he is delving through a thick file, pouring out comparative international economic statistics. We begin with the robustness of the economic recovery. Is he sticking to the Treasury's forecast of 1.25 per cent growth this year?

"I'm not going to change the Treasury forecast in an interview... but I would be very surprised if the forecast is not met this year." He promises not to quote figures, before reciting pages of them: on inflation (a 30-year low), unemployment (falling for three months), manufacturing productivity ("a record high"), industrial production (up 1.6 per cent on a year ago), and the statistical *coup de grâce*: a list of "quite startling" international comparisons of peak-to-trough declines. In industrial production. Britain's 7.6 per cent looks good alongside Germany's 12.3 and Japan's 11.5, although it is steeper than France's. He concludes: "We are in a position where we can move into a period of steady and sustainable growth. I emphatically do not want a sudden, short-term sharp burst of activity."

But what about the public finances, in this slow growth scenario? With public spending back to 45.5 per cent of gross domestic product, won't spending have to be cut back well beyond planned levels?

The prime minister points to the effects of recession on tax receipts and social security benefits. Just as the huge surplus of the 1980s was "something of a surprise", so now the pendulum had swung back dramatically. With a jab at critics inside his own party, he insists: "This is not a runaway spending spree by government." During the recession, he thinks it was right "to protect the people who are hurt and to protect some of the public sector and infrastructure programmes".

The spending review being conducted by Mr Michael Portillo, chief secretary to the Treasury, is not mainly concerned with this cyclical problem. "We are doing what I thirsted to do when I was chief secretary, to look not just at the annual increase in public expenditure but to strip down below the baseline, right to the very roots, programme by programme."

With scare stories almost daily about where the axe will fall, the concern has arisen that Mr Major may be preparing to work around his carefully worded manifesto commitments to attack welfare state provisions for those with modest incomes, especially pensioners.

"You touch on one of the most important things and where so much of the concern is apt to arise. We do have a particular concern for people on modest incomes who worked through their lives to provide for themselves rather than depend on the state.... That is why I am saying that we have to select priorities.... If we do not do so, then taxes will rocket." So will he stick to the spirit and the letter of the manifesto? "Of course." Does that mean the Portillo review will not question the principle of universality which underpins so much of the British welfare state? "There are areas where we will look at universality, yes."

Confusing? Well, perhaps it could hardly be otherwise, since nobody can say how much of the budget deficit is cyclical or structural and how it will respond as the economy recovers. "I wish I knew," says the prime minister. Given that he does not, when will Mr Portillo's digging to the very roots actually make a difference? Certainly not in the next two to three months. The questions "are very fundamental and they will take rather a long time".

In the short term he cannot avoid taking a view on public-sector pay. Is Mr Major tempted to extend the 1.5 per cent ceiling of the past year? "We will be discussing that in the very near future," he says. What about a freeze? Straight bat: "We will be discussing it in the near future." What about taxes? Would he be prepared to put them up, rather than impose sharp restraints on expenditure? "It is principally a public-expenditure problem rather than a taxation problem and it is at public expenditure that we must look first."

If that does not quite echo the spirit of Thatcherite low-taxation rhetoric, it may be because Mr Major acknowledges more readily that under the Conservatives the burden of taxation has been shifted rather than eased.

A subject on which he does speak with passion, however, is inflation. In mentioning the businessmen who tell him that a little inflation will be all right, he comes as close to thumping the table as his nature allows. "We could have blinked on inflation on a number of occasions. If we were prepared to sacrifice potentially a general election by not doing the easy and popular thing to get inflation down, it is not likely that we would let go of it now."

This too is his answer when asked about the case for an independent central bank, as a more credible guardian of stable prices. "What matters is the determination of the people responsible for the policy in keeping inflation down. We are determined."

Until last September, of course, Britain's anti-inflationary anchor was the exchange rate mechanism.

He thinks the Maastricht debate across Europe should serve as a warning of the distance between politicians and public

Now that the EC has concluded that there are no fault lines, does that mean Britain will stay out? "We won't start contemplating going back into the ERM until Britain's economy is more in step with the rest of Europe.... Above all we would need economic conditions in Germany and Britain to be much more closely in line." Does he expect to lead Britain back into the ERM during his premiership? "I don't know." Does he still think there are fault lines? He does. "As people's ambitions stretched out towards a single currency, the ERM became rigid to the point of inflexibility."

Turning to his agenda for the EC, at next month's Copenhagen summit, Mr Major focuses upon enlargement talks with the Efta countries. "I want to give that a big push. That is pivotal to the future of the way I see the Community, to have the Eftans in place as members before any further consideration is given to institutional change in the Community."

These new members – Sweden, Norway, Finland and Austria – "are countries with a greater affection for free trade than some that are already in there. Also you have four countries that will be net contributors to the budget. For the first time since the Community was established, you begin to see a balance in members between net contributors and net recipients. You begin to change the culture of the Community. That is a principal aim."

He is also interested in the Community's growth initiative, though not as an expenditure-driven exercise. He makes three points: the need for more deregulation, greater subsidiarity and a determined effort "to make sure that barriers to the single market genuinely are removed and that subliminal barriers aren't erected by our partners".

In the longer term, in the run-up to the EC's proposed intergovernmental conference in 1996, he does recognise the case for institutional reform. "I don't believe many people are satisfied with the accountability of the Commission. When people say they don't like Europe, what they mean is that they think the Commission is overweening and overpowerful." He also wants the EC to examine "the role of national parliaments and the European parliament, to make sure that that is properly in kilter and that they have the appropriate responsibilities. We also need to look at the role and the operation of the European Council." There will, he says, be "fierce discussion and squabbles" about these matters, but he considers enlargement a certainty and with it "an opportunity to introduce a much greater degree of flexibility into the European Community."

'What matters is the determination of the people responsible for keeping inflation down. We are determined'

There have been signs recently that the Foreign Office has been toying with a more favourable attitude towards a Community of "variable geometry" or "multi-speeds", perhaps even accepting the fact that Britain may settle for a medium-speed lane. Mr Major professes himself "pretty sceptical about how that would really work.

"With regard to variable speed, the social chapter to an extent has done that.... To what extent they will actually proceed with the social chapter without the British, I don't know. There may be areas where we will have disuniformity, a form of variable geometry, but I don't know how far you could carry that and it still be a credible Community. I'm not saying it can't be done. It's easier to talk about in the abstract than in detail."

It is all very well, though, to talk about an alliance with the Eftans. What about Britain's relations with Germany and France, the motors of the Community?

He considers Germany a significant ally on subsidiarity and enlargement, but then slips into rhetoric rather than *realpolitik*. He thinks the Maastricht debate across Europe should serve as a warning of the distance between politicians and public. "If the European politicians don't understand that, they are heading for very big trouble."

If he has big challenges before him in Europe, he also has severe difficulties to his rear, following the Maastricht debate. Discussing the political diversity of his own party, he comments that it is "a pretty broad church... and I hope we will keep them all in it."

But people are puzzled. In his cabinet, he has Thatcherite radicals and avowed consolidators. Which is he? It is easy to mislead in answering this question, he suggests, and offers the following: "When I see something that I believe is wrong, I will want to change it. Where I see something that operates broadly with the grain of the British instinct, I won't want to change it." Surprisingly, he cites the fiery and philosophical Enoch Powell as an example of an unclassifiable politician from his own party. He too resists classification. When he wants change, it is not "through some ideologically-driven motive".

For example, he wishes to semi-privatise the railway only "because British Rail is deeply inefficient". He thinks the improvement of a privatised Docklands Light Railway shows the potential. "I want something that works, something that is efficient. If that is radical, I would just say it is common sense."

To those who see him as a political weathervane, a leader without authority, he returns to his proudest accomplishment: suppressing inflation, even through an election campaign. To that he adds Maastricht, on which he spurned the lure of "cheap popularity" which ditching the treaty would have brought. He acted "because I believed it was right... so that Britain has the appropriate authority in Europe to shape the future of the EC and not be shaped by the future of the EC. The record shows that I would not shift the view that I thought was right. I don't think that argues anything other than conviction politics."

One subject he will not discuss is the looming cabinet reshuffle. There's something else he won't do. He is asked what he has learned from the last year and spots at once the reference to his chancellor's taste in popular music: "*Qu'est-ce que vous regrettez*, Mr Major?"

"I am not going to reply in French. I have at least learned that," he laughs. He says he has mainly learned about life with a small majority. As for regrets, they all concern the economic pain individuals have suffered in the battle against inflation. "I do not think that was wrong, it was inevitable, but I do regret the fact that many people were hurt while we did it."

OBSERVER

Tiny ducks the battle

■ If seasoned observers of Lonrho's embattled boss Tiny Rowland are still not sated after tonight's BBC documentary on the rebel tycoon and Tom Bower's new biography, then they ought to dip in to "Tiny Rowland: the ugly face of neocolonialism", published by an organisation linked to US political oddball Lyndon LaRouche. Even Rowland's harshest critics will find it impossible to swallow the latter's conspiracy theories about Rowland.

Indeed, one of the reasons that people seem to be able to say all sorts of outrageous things is because Rowland has never been known to sue for libel. Is it pride, or anxiety about what he might be asked if he was to be cross-examined in court? Until now Tiny has limited himself to long complaining letters. But now Mrs Rowland is threatening to sue. Isn't it about time the one time Scharführer in the Hitler Youth followed suit?

Hanson grub

■ What on earth will the competition make of Lord Hanson's spirited defence of San Lorenzo, Princess Di's favourite restaurant?

The chairman of Britain's tenth biggest company has written for a second time to complain about the London Evening Standard's description of the output of one of his favourite trattorias, as "Canteen grub for the rich and famous". According to Hanson the over-priced Italian hostelry does not need to defend itself but its customers are "infuriated by these needless and ill-informed attacks."

Even if some of Lord Hanson's corporate rivals do not regard this as another sign that Britain's number one predator is taking his eye off the ball, the other hostelries he frequents, such as Harry's Bar, Mark's Club and Santinis, must be wondering what they have to do to get a ringing endorsement from a blue chip client. A different table perhaps?

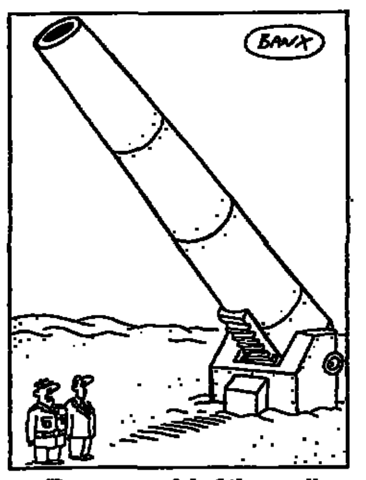
Match point

■ The apparent end of the long search for Gatt's next director-general is bad news for Julio Lacarte-Muro, Uruguay's 75-year-old chief trade negotiator. Despite his age, he had thrown his cap in the ring and, given that Peter Sutherland is almost 30 years younger, it looks likely that Lacarte-Muro will never perform the job he seemed made for.

The spry Uruguayan, who plays tennis four times a week and shows no sign of slowing down, beats the competition hands down in terms of Gatt experience. He was in on the negotiations which established Gatt in 1947, becoming deputy executive secretary of the organisation at its inception.

During three tours of duty as Uruguay's Gatt ambassador in Geneva, he has been chairman of Gatt's governing council and of the contracting parties (members). He has taken part in all eight trade liberalising Gatt rounds, and, of course, was instrumental in persuading Gatt members to choose Punta del Este – the fashionable seaside resort where he has a holiday home – to launch the present Uruguay Round in 1986.

In or out of the top job, Lacarte-Muro has a long-standing personal interest in one aspect of the current weary round – the proposed creation of a powerful Multilateral Trade Organisation. An International Trade Organisation was the centrepiece of the 1948 Havana Charter which Lacarte-Muro helped draw up, only to see it vetoed by the US Congress.



'Be very careful of the recoil on this thing'

Allied search

■ With Peter Sutherland, Ireland's former EC commissioner, seemingly bagging the Gatt job, Ireland's biggest company, Allied Irish Banks, will have to find a new chairman. Sutherland, who joined AIB in October 1989, has been a more active chairman than his predecessor and there is no obvious successor with the same political connections – unless AIB were to poach Ray MacSharry from rival Bank of Ireland.

One possibility is that Gerry Scanlan, AIB's chief executive, takes the job. He retires in less than a year's time and is already deputy chairman. However, this would be a break with tradition and the smart money in Dublin is on industrialist Jim Culliton, 58, adding the chairmanship to his growing portfolio.

Gunning for Betty

■ At least Commons speaker Betty Boothroyd is assured of the best of advice while pondering how to respond to Sir Hal Miller's explosive remarks to the arms-for-Iraq inquiry.

Her secretary, Nicolas Bevan, is the very same civil servant who, as an MoD official, testified to the cross-party trade and industry select committee on the same subject in 1992.

Then he made the important revelation that ministers were not informed of an official *démarche* to the Belgian government in December 1989 over a contract won by the Belgian company PRB to supply the propellant for a high-velocity, long-range gun to Iraq. The committee later said it was "astonished" ministers were not informed.

From Bevan, who became speaker's secretary earlier this year, emanated arguably the most consummate piece of civil service-speak heard during the committee's evidence-taking.

Asked whether British Intelligence might have discovered that a "massive gun" had been set up on a hillside in Iraq, he replied: "Well, it is always unwise to rule out anything."

Changing places

■ What are we to make of the last minute change of seating plan on this week's edition of BBC Question Time? Margaret Beckett, the deputy leader of the Labour party, has promised to turn up along with Baroness Shirley Williams, co-founder of the SDP, and GEC director Sara Morrison. But Chancellor of the Exchequer Norman Lamont has suddenly found he's unable to attend and been replaced by Home Secretary Kenneth Clarke. Shape of things to come, perhaps?

FINANCIAL TIMES
Wednesday May 26 1993

Magistrates' move adds to pressure on car group's management structure

Chief executive of Fiat under investigation

By Robert Graham in Rome and Haig Simonian in Milan

MR CESARE ROMITI, chief executive of the Fiat group, is being formally investigated by Milan magistrates for alleged corruption and illicit financing of political parties.

Mr Romiti, who is the most senior management figure in the Turin-based auto group below Mr Giovanni Agnelli, the chairman, was reported to have been placed on the list of those under investigation on May 18.

Although not officially confirmed, the news comes from leaks from the Milan magistrates' office which have been consistently accurate over the 15 months of corruption investigations.

Already 12 executives in the Fiat group have been arrested and given testimony to Milan magistrates during the course of the past year. The involvement of Mr Romiti, aged 69, in the investigations into illicit funding of Italy's political parties through kickbacks on contracts is a big blow to the prestige of the Italian motor group.

It also raises questions over how much longer Fiat will be able to retain the existing management structure, which was reorganised only six months ago to take account of Mr Agnelli's plans to step down in 1994.

. The news drove down the share price of Fiat and most of its subsidiaries on the Milan stock exchange. Fiat was fixed at L6,546, down from L6,575 on Monday, before falling further to L6,400 after hours.

The group, which will announce its 1992 results next week, is expected to report net profits fell by more than half to about L500bn ($337m)Fiat warned yesterday that it may have to cut more jobs to accommodate the recession in the car and truck markets.

Mr Romiti joined Fiat in 1974 from the state-run IRI group and became managing director in 1976. With a reputation as a tough manager, he has played a major part in the group's development. When the group was caught up in the corruption scandals in May last year he adopted a tough stance towards the judiciary.

He changed tune only last month when Mr Agnelli appeared to decide Fiat had more to gain by co-operation with the Milan magistrates, who by then had imprisoned both the group's chief financial officer and the chief operating officer.

Fiat number two Cesare Romiti: said to be under investigation

On April 21 Mr Romiti handed in a dossier of Fiat's relations with political parties over the past decade – excerpts of which have begun to be leaked by the magistrates this week. Unlike Mr Carlo De Benedetti, chairman of Olivetti, he did not assume personal responsibility for any of the alleged kickbacks.

It appears that the magistrates in cross-checking believe Mr Romiti has more to tell and that some of his voluntary testimony conflicts with those of his managers.

Further embarrassment to Fiat's position was caused by the arrest over the weekend of Mr Giuseppe Zumino, managing director of a Fiat property development company. He was arrested in Nice, France apparently after police had traced a car from Fiat's Turin headquarters to his hotel.

THE LEX COLUMN

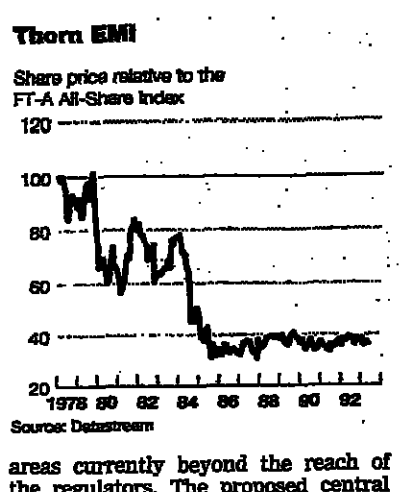
Thorns in the side

The stock market is unsure whether to be seduced by Thorn EMI's big idea. The company is currently suggesting that substantial value can be realised from rationalising Thorn's sprawling interests. That would leave a a finely-focused music and rentals business. Thorn's latest results certainly highlight the charms of its core companies. Boosted by Virgin, the music arm lifted operating margins 2 percentage points to 13 per cent, contributing 52 per cent of Thorn's £377m of trading profits. Shorn of its peripheral businesses, Thorn's share rating should theoretically soar towards the heights commanded by pure music companies, such as Polygram.

But it would not do to grow too excited. Thorn's remaining business laggards are suffering badly and may yet inflict more pain. Profits in the defence arm have all but collapsed. Rumbelows remains troublesome and, though improved, the lighting business is still limping. These interests may well keep Thorn's share rating pegged to the market average for a while to come.

The longer term worry, however, is that grand plans too long in gestation have a nasty habit of going out of fashion before fruition – as ICI's experience suggests. The current regulatory interest in UK CD prices may prove no more than a minor irritant; nevertheless, it could presage greater pressures to come. The regulator's visible hand may well fail to cut the music industry's fat margins; the market's invisible hand, though, may wield a sharper knife.

FT-SE Index: 2837.7 (+12.1)



UK regulation

Anyone anticipating radical proposals from Mr Andrew Large's review of investment regulation will be disappointed, or perhaps relieved. But it still requires an act of faith to believe the two-tier system of statutory and self-regulation can be made to work by sharpening the regulatory style. Mr Large is surely right that the Securities and Investments Board must, as lead regulator, spend more time supervising the self-regulatory organisations and less on detailed rule-making. Even so, the onus will be on Mr Large to stamp out the mentality which places greater emphasis on standard-setting than enforcement.

The price of avoiding fresh legislation may be wider market supervision. Keeping the lid on insider dealing and market manipulation will probably involve extending trade reporting to areas currently beyond the reach of the regulators. The proposed central database for trade reporting might, for example, extend to over-the-counter derivatives. These free-wheeling areas of the capital markets will need convincing that such a measure is not the thin end of the regulatory wedge. With the Taurus fiasco in mind, the City will equally require assurances that the project is not another technological white elephant.

Whether a tough new attitude at SIB will extend to other areas of the market remains an open question. A less indulgent view in matters of market transparency will not win friends in the industry.

Argyll

The fall in Argyll's share price in response to a 14 per cent increase in full year profits is typical of its harsh treatment at the hands of the market. Having underperformed the plummeting food retailing sector by 10 per cent since the turn of the year the company might have expected as much. There seems little hope of closing the rating gap on J. Sainsbury.

Argyll has not won friends in a nervous stock market by increasing capital expenditure again this year. Yet by planning to increase space annually by around 7 per cent, it is only keeping pace with the best of the competition. And its cost per new store remains well below Sainsbury, despite an increase in the average last year thanks to a concentration of new openings close to London.

True, Safeway's own-label products account for a lower proportion of sales than Sainsbury. If that makes it more vulnerable to the cut-priced branded goods offered by discount retailers, Argyll's rating might be expected to suffer. But with few signs of slippage in yesterday's figures, it is hard to avoid the conclusion that the market is trying too hard to find reasons to sell.

Speyhawk

The appointment of receivers at Speyhawk will send shivers down the spines of struggling property developers but is unlikely to scare them rigid. The decision seems to owe more to the particularities of Speyhawk than a sea change in policy by the banks. In truth, it may reflect little more than a loss of patience with a company which has long been technically insolvent and recently revealed a further downward lurch in asset values.

Nevertheless, the timing still looks odd in light of the hazy upturn in the property market. Speyhawk's property portfolio may be among the last to benefit, given the company's habit of building speculative developments in south east England. It seems improbable, though, that even bankers would be so rash as to kill any recovery stone dead by prematurely dumping properties on the market.

Williams Holdings

It seems Mr Brian McGowan, Williams Holdings' chief executive, wants to spend more time with his fishing rod. His decision certainly suggests that life in City mergers and acquisitions departments will continue to be dull. It also raises awkward questions for Mr Nigel Rudd, Williams' chairman, who is arguably even more of a fan of bids and deals. The company may say that potential targets are too expensive and that organic growth is its chosen route, but that is to make a virtue of necessity. Williams' lowly rating hardly permits a paper bid while gearing constrains cash offers.

Organic growth, however, will be equally hard to come by. Many of its businesses flower late in the economic cycle, while at a trading level cash has flowed out of the company in each of the last three years. Above average growth to restore the company's premium rating looks unlikely. The uncharitable may feel that it is just as well Williams has turned its back on contested bids, since it has failed too often. The reality is that conglomerate sharks need to keep moving forward if they are to thrive.

Global standard on HDTV not likely, says Brussels

By Andrew Hill in Strasbourg

A CONCERTED new US effort to develop digital high-definition television was unlikely to produce a single global standard for cinema-quality television, EC officials said yesterday.

But a senior European Commission official said the US "grand alliance", formed on Monday between competing HDTV consortia, would probably boost worldwide co-operation on television standards and lead to technology sharing.

Political progress on a European HDTV initiative has been stalled since last year. Britain has been blocking agreement on EC funding on the grounds that digital HDTV technology will soon supersede the original Community strategy.

Two European electronics groups, Thomson Consumer Electronics of France and Philips of the Netherlands, are among the companies which have now decided to collaborate on a single digital HDTV standard for the US, instead of competing for the approval of the US Federal Communications Commission.

A simple transfer of US standards to Europe would not be possible, the European Commission said yesterday, because of differing technical requirements, although EC digital standards could use the same basic technologies as the US system.

But a Thomson spokesman yesterday said: "Now Philips and Thomson are involved in a grand alliance I should think there's definitely worldwide potential for this standard."

The announcement of the grand alliance should bring new urgency to the meeting of EC telecommunications ministers on June 16, when 11 member states will again try to overcome long-standing British opposition to a proposed Community strategy on advanced television.

Philips and Thomson were supposed to be among the principal beneficiaries of the EC's original HDTV strategy, based on exclusive satellite transmission standards. Unlike the analogue technology first selected by the EC, digital standards can also be used for terrestrial broadcasts and for links with computer and audio technology.

Denmark, which holds the EC presidency until July, wants the Commission to present proposals for a "family" of EC digital standards later this year. Unlike its predecessors, the advanced television action plan now under discussion is not tied to particular standards.

Philips said yesterday a joint US digital standard could be agreed by the FCC next year and broadcasts could begin as early as 1996. However, the company said digital transmissions were more likely to begin in 1997.

US poised to put trade conditions on China

By Nancy Dunne in Washington

THE CLINTON Administration is close to announcing a decision which would impose conditions on China if it is to maintain its Most Favoured Nation trading status after next year.

As expected, administration officials are recommending that President Bill Clinton renew China's MFN this year.

Congressional and Administration officials said yesterday the content of the conditions was being discussed with Democratic leaders on Capitol Hill, who have been pressing to remove China's MFN ever since the bloody demonstrations at Tiananmen Square in 1989.

Proposals, approved on Monday by Administration officials, will go to Mr Clinton unless key members of Congress raise strong objections.

The Chinese case was not helped by this week's unrest in Tibet, where police used teargas to try to subdue demonstrators. It is the worst outbreak of separatist violence in Tibet since 1989, and it comes just a few weeks after Mr Clinton met with the Dalai Lama, Tibet's exiled spiritual leader.

It is understood the administration is prepared to demand that China safeguard human rights in Tibet as one of the conditions of MFN renewal next year.

Also under discussion yesterday as stipulations for MFN renewal in 1994 were that China account for the number of political prisoners it holds,provide access by Red Cross Officials to Chinese prisons, and allow inspection of prisons suspected of producing products for export. China would have to live up to previous commitments on nuclear non-proliferation and market access for foreign goods.

During his campaign Mr Clinton promised to get tough with China on its human rights record. However, once in office he came under pressure from the business and farm lobby whose dealings with China grow each year.

What is emerging is a two-track policy which is more stick and less carrot than applied by former President George Bush. US trade officials will, however, continue to work with China to get it admitted to the General Agreement on Tariffs and Trade. Officials have advised Beijing to liberalise and adopt a more transparent trade regime.

Balladur moves to create more jobs

Continued from Page 1

ployed. The switch in government priorities arises less from a change in its overall forecast on the economy – which even on May 10 it estimated would see a contraction in gross domestic product of 0.1 per cent this year – than from new forecasts of unemployment. It now believes that the number of jobless, set in March at 3.1m (10.7 per cent of the workforce), will rise by another 350,000 this year.

Mr Balladur yesterday sought to reverse the widespread feeling that the rise in unemployment was inexorable. He criticised some companies for their "unacceptable" practices in "dispatching" people to the dole queue, and he called on state-owned companies to be "exemplary" in seeking, whenever financial and market conditions allowed, to avoid redundancies.

On May 10, Mr Balladur had said he would spend FFr12.9bn this year to promote employment, both directly through payroll tax cuts and work schemes and indirectly through more spending on public housing and infrastructure projects. But since then he has been intensively lobbied by employers and unions to beef up his recovery programme.

The FFr40bn bond issue is designed to tap some of the FFr1,200bn of savings now in money market funds and to put it to more productive use.

Mr Balladur stressed that it would only represent a momentary surge in state borrowing, until the planned sell-off of state-owned companies starts in the autumn. Later today the government is to unveil its privatisation bill, listing the companies it plans to sell.

● French banks yesterday continued the downward trend in interest rates by cutting base rates by 0.2 points to 8.8 per cent. Yesterday's cut follows Monday's announcement that the Bank of France was trimming its leading interest rates by 0.25 points.

Black majority rule resisted

Continued from Page 1

Magna Carta for that five years," he said.

After the five-year term, "there are various scenarios . . . which contain forms of power-sharing that are totally in step with true democracy," he said.

His remarks are certain to dismay ANC leaders. Only last week, a senior ANC official said: "The idea of an inner cabinet of party leaders goes way beyond the government of national unity we have offered."

Major outlines EC strategy

Continued from Page 1

the Community that had come to light in the debate over Maastricht would reinforce Britain's case for a more flexible, decentralised Europe.

Under intense pressure to heal the wounds inflicted by Maastricht on the ruling Conservative party, Mr Major added that the entry of the four would "begin to change the culture of the Community".

The new entrants were more committed than some existing members to free trade and, importantly, all would be net contributors to the Brussels budget. "For the first time since the Community was established, you begin to see a balance in the members between net contributors and net recipients."

Mr Major said the shift in the balance of power would provide the backdrop for Britain to propose a range of institutional changes in the 1996 conference.

He highlighted new moves to strengthen accountability of the European Commission, shifts in the balance of responsibilities between the European and national parliaments and possible reform of the European Council.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	23	73	Boulogne	S	27	81	Frankfurt	S	27	81	Majorca	S	31	88	Oporto	F	17	63	Tenerife	C	21	70
Algiers	S	24	75	Brussels	F	25	77	Geneva	S	25	77	Malaga	F	22	72	Oslo	F	13	55	Tokyo	S	26	79
Amsterdam	S	20	68	Budapest	F	25	77	Gibraltar	F	21	70	Malta	S	28	82	Paris	F	25	77	Toronto †	R	12	54
Athens	F	25	77	Buenos Aires	R	19	66	Glasgow	C	12	54	Manila	C	36	97	Prague	S	24	75	Tunis	S	31	88
Bahrain	S	34	93	Cairo	F	30	86	Helsinki	C	10	50	Melbourne	F	15	59	Reykjavik	C	8	46	Valencia	F	24	75
Bangkok	C	32	90	Cape Town	F	13	55	Hong Kong	R	24	75	Mexico City	C	27	81	Rhodes	S	25	77	Venice	S	26	79
Barcelona	S	23	73	Caracas	F	33	91	Innsbruck	F	26	79	Miami †	F	26	79	Rio de Janeiro	C	28	82	Vienna	S	24	75
Beijing	S	27	81	Casablanca †	C	21	70	Inverness	C	9	48	Milan	S	28	82	Rome	S	24	75	Warsaw	S	24	75
Beirut	C	22	72	Chicago †	C	12	54	Islamabad	F	41	106	Montreal †	C	17	63	Salzburg	S	26	79	Washington †	C	21	70
Belfast	C	13	55	Cologne	S	26	79	Istanbul	F	21	70	Moscow	S	22	72	S'Francisco †	S	13	55	Zurich	S	26	79
Belgrade	F	24	75	Copenhagen	Dr	13	55	Jakarta	C	32	90	Munich	S	26	79	Seoul	F	16	61				
Berlin	S	23	73	Corfu	S	25	77	Johannesburg	S	23	73	Nairobi	C	24	75	Singapore	T	29	84				
Bermuda	S	22	72	Dallas †	S	18	64	Lisbon	F	16	61	Naples	S	25	77	Stockholm	F	11	52				
Bombay	F	31	88	Dublin	C	12	54	London	C	16	61	Nassau	C	28	82	Strasbourg	S	28	82				
Bordeaux	F	23	73	Dubrovnik	S	25	77	Los Angeles †	C	17	63	New Delhi	S	40	104	Sydney	S	18	64				
				Edinburgh	C	10	50	Luxembourg	S	24	75	New York †	S	24	75	Taipei	R	28	82				
				Faro	R	17	63	Madeira	F	18	64	Nice	S	22	72	Tangier	R	19	66				
				Florence	S	27	81	Madrid	R	18	65	Nicosia	S	22	72	Tel Aviv	S	29	84				

Temperatures at midday yesterday
† Noon GMT temperatures
C–Cloudy Dr–Drizzle
F–Fair Fg–Fog H–Hail
R–Rain S–Sunny
Sl–Sleet Sn–Snow
T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday May 26 1993

INSIDE

French bond issue to finance recovery

French Prime Minister Edouard Balladur yesterday announced a record FFr40bn ($7.31bn) bond issue to finance his economic recovery programme, and said the new state loan would be aimed at individuals who could convert their bonds into shares of newly-privatised companies, or put them into tax-exempt long-term savings plans. Page 21

Preaching the Lucas message

Lucas Industries of the UK now preaches what has become the accepted wisdom on how to achieve international competitiveness. Page 23

SE Banken rescue continues

The Swedish government said yesterday negotiations on a rescue package for loss-burdened Scandinaviska Enskilda Banken were continuing, despite market speculation that the bank might not need state assistance. Page 18

Japanese property group falls

Kumagai Gumi, the ambitious Japanese developer and contractor, has suffered a 39.7 per cent slide to Y9bn ($81m) in pre-tax profits as its leading banks intensify the restructuring of the company. Page 20

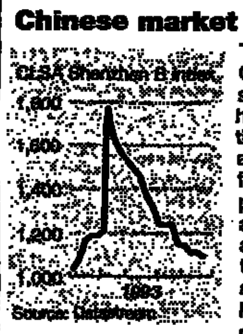
Varity at $11m in quarter

Varity, the US automotive, farm and industrial equipment maker, reported first-quarter income of $11m before one-off charges of $146.1m for changes in accounting methods. Page 19

Dutch hope to net a vintage

The Netherlands is about to celebrate the traditional opening of the "new herring" season. Like the public relations surrounding "Beaujolais nouveau" in the wine world, festivities attached to the "new herring" are designed to bolster the status of the fish. The Dutch fishing industry is hoping for a repeat of the 1991 season, when the "vintage" was of top quality. Page 24

Chinese market loses its gloss



The Shenzen market, like China's other fledgling stock market in Shanghai, has proved extremely volatile recently, sliding by about 7 per cent in the first week of May. Prospects of tighter supervision and a growing belief among foreign investors that Chinese investments are best made through Hong Kong-listed companies, are taking the gloss off the local markets. Back Page

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				**Rises**			
Continental AG	198.6	+	4.1	Bongrain	2530	+	92
Deutsche Babck	151	+	4.1	CEP	1070	+	47
Herlitz	307	+	7	Cr Fonc France	1012	+	42¼
Holzmann Ph	985	+	25	Schneider	890	+	28
Porsche	494	+	19	**Falls**			
Falls				Fin Pollet	401	-	39
GEHE	360	-	12	Fonc Lyonnaise	601	-	31
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Amax	22⅞	+	4⅝	Godo Shusei	690	+	33
Chase Manhattan	30	+	¾	Graphtec	1330	+	190
Chemical Bank	37⅛	+	⅛	Mori Seiki	2250	+	140
First Chicago	38⅜	+	1⅛	Mitsuko	905	+	42
Falls				**Falls**			
Cyprus Minerals	27⅛	-	⅛	Miyaji Iron Wks	790	-	30
Dell Computer	25	-	7⅛	Seino Transprt	1780	-	130

New York prices at 12:30.

LONDON (Pence)							
Rises				Paterson Zoch A	385	+	13
Alexon	93	+	7	Thorn EMI	856	+	28
Aminex	17¾	+	2¾	Trafalgar Hse	109	+	10
BICC	403½	+	18½	Tunstall	437	+	24
BT	427½	+	14½	Whitecroft	48	+	4
Birkdale	28	+	5	**Falls**			
Cable & Wire	749	+	25	BAT Inds	833	-	12
Euro Disney	830	+	45	Cosalt	131	-	15
Euromoney Publ	1085	+	35	Fairline Boats	348	-	42
Haden MacL'lan	51	+	5½	Proudfoot (A)	69	-	11
Hartstone	86	+	11	UK Land	34	-	3
Invergordon	297	+	25	Williams Hldgs	310	-	10
Jarvis Porter	253	+	13				
Kleeneze	146	+	8				

Volkswagen near to ending car losses

By Kevin Done and Christopher Parkes in Wolfsburg.

VOLKSWAGEN, the troubled German carmaker, is close to staunching the losses in its core VW car division.

The VW brand operations accounted for around two-thirds of group turnover and were already operating close to break-even in April and May, Mr Ferdinand Piëch, chairman of the VW group management board said yesterday.

The Volkswagen parent company mad a loss of DM578m ($354m) in January, when the VW division was forced to implement extensive short-time working and make provisions for significant job cuts.

Mr Piëch said VW parent company losses had been reduced to an estimated DM325m in February and trimmed to DM40m in March.

The VW division had cut 31 days of production in the first half of this year, but was reducing vehicle stocks. Mr Piëch said he was hopeful of resuming full production after the summer.

He saw no reason to change his earlier forecast that the group would achieve a small profit for the full year despite its loss of DM1.25bn in the first quarter.

Mr Piëch said the first signs were appearing of a fragile recovery in demand in the German new car market. Prices were improving in the used car market and new orders had risen over the past three weeks.

In the first four months of 1993 new car registrations in Germany fell by around a fifth from the corresponding period a year ago.

Mr Piëch said Volkswagen had failed "to prepare for bad times" in the previous eight years of strongly rising car sales in Europe.

"We came into this crisis needing to produce at 100 per cent of capacity just to break even, depending on the plant," he said.

He added the company's goal was to reduce the break-even level to "70 per cent of capacity or better," but it could take 6 years to achieve this target.

The "drastic measures" taken since January had reduced the break-even level to 85-90 per cent, but the company was still only using around 78 per cent of its available capacity.

"My first task is to get into the black by the end of the year even with this level of capacity utilisation, to bring the break-even down from 100 per cent to under 80 per cent," he said.

"I think it is still possible to make a profit in the full year. Everything depends on the VW division. In April the parent company was at break-even. If the market does not get worse April and May will have been around zero."

NTT suffers 29% fall due to fierce competition

By Michiyo Nakamoto in Tokyo

NIPPON Telegraph and Telephone (NTT), Japan's privatised telecommunications group, suffered a 29 per cent fall in parent pre-tax profits to Y247.2bn ($2.2bn) for the year to the end of March, as it faced intense competition from new entrants into the domestic telecommunications market.

The company came under increasing pressure from its competitors, forcing the group to reduce some long-distance inter-city rates to maintain market share.

Competition in particular has been intense in the profitable routes between Tokyo, Osaka and Nagoya, where new private telephone service companies already have more than 50 per cent of the market.

The effect of NTT's rate cuts appeared in its operating revenues, which fell to Y5,892bn, down 2.7 per cent from the previous year.

Meanwhile, NTT said the weakness of Japan's economy led to a slowdown in telephone subscriptions.

In the face of a difficult business environment, the group has had to maintain capital investment at high levels in order to modernise the telephone system and invest in remote areas whether they are profitable or not.

NTT's parent results were also affected by the separation of its mobile communications business – one of the most profitable businesses for the group – into a separate company during the year, which contributed to the overall fall in its operating revenue.

In an effort to trim costs and raise profitability, NTT announced earlier this year it would reduce its workforce by 30,000 over the next three years and cut its retail outlets by a third. It is slashing management bonuses and cutting back recruitment by a third.

NTT has also proposed to Japan's Ministry of Posts and Telecommunications that it be allowed to raise its telephone rates.

Competition is expected to remain fierce in the current year and NTT is forecasting a further fall in pre-tax profits to Y149bn.

Asian link for AT&T in global venture

By Martin Dickson in New York

AMERICAN Telephone & Telegraph, the leading US long-distance telecommunications group, yesterday linked up with Kokusai Denshin Denwa of Japan and Singapore Telecom to create a formidable new competitor in the fast-growing market for global business communications services.

AT&T said it also wanted to form alliances with European telecommunications groups but – in a move likely to put pressure on these companies – said that for now it would go ahead with its own European system, which would be introduced in 1994 and involve spending $350m over five years.

Multinational companies are increasingly asking telecommunications groups to create seamless international networks enabling them to send voice and data traffic around the world simply and with a uniform standard of performance.

Other leading telecommunications companies, such as British Telecom and MCI Communications of the US, have been trying to build up their own global networks, but AT&T's deal is the most far-reaching pact yet announced.

It said yesterday that customers of its "Worldsource" service would get one-stop shopping for ordering, provisioning and maintenance around the globe. Billing would be consolidated in a customer's choice of country, language and currency.

The service will be available later this year in North America and the Asia/Pacific region.

Mr Joseph Nacchio, president of AT&T business communications services, said the company in Europe would prefer to deliver the new services through tie-ups with its traditional partners in these countries and AT&T's investment could work out at less than $350m if other partners came in.

● BT, the UK telecoms group, said Worldsource appeared to be "essentially a partnership-based service" of a kind it already provided, writes Andrew Adonis in London.

It pointed to its existing "Featurenet" service, comprising partnerships with more than 100 national carriers overseas to provide one-stop and enhanced services. Analysts said prospects for "global partnerships" between AT&T and leading European telecoms companies did not seem bright.

Vanessa Houlder explains why the banks decided the time had come to shoot down a crippled Speyhawk

Time runs out for property high-flier

A YEAR ago, Mr Trevor Osborne, chairman of one of the UK's biggest property companies and a well-known figure in the industry, made a light-hearted reply to a speech by Sir John Quinton, then chairman of Barclays, about the banks' attitude to troubled property companies. "Sir John," he quipped, "we owe you more than we can ever repay."

Yesterday, Speyhawk, with debts of over £350m ($539m), lost its two-year struggle for survival and became the latest casualty of the UK commercial property slump. Speyhawk's 46 domestic and international banks are likely to share losses of over £150m, based on an estimated value of its assets of £200m. Speyhawk's main lender was Barclays, which made loans of around £50m, and it was Barclays which put the company into receivership.

At a fraught meeting on Monday the banks unanimously rejected a last-ditch plea from Mr Osborne to give the company more time. Mr Osborne said yesterday that he was "gutted" by their decision. "It came as a devastating blow to me," he says.

The blow was all the more severe because Speyhawk has been in restructuring talks for nearly two years and Mr Osborne has long believed that a deal was within reach. A restructuring agreement in which the banks agreed to subordinate part of Speyhawk's debt, has been in the hands of lawyers since Christmas Eve.

But the banks say that the restructuring package was never as secure as Mr Osborne thought. "It was a question of developers' optimism versus bankers' realism," one said.

The difficulty partly arose from conflicts of interest between the banks, the loans of which were secured on different assets.

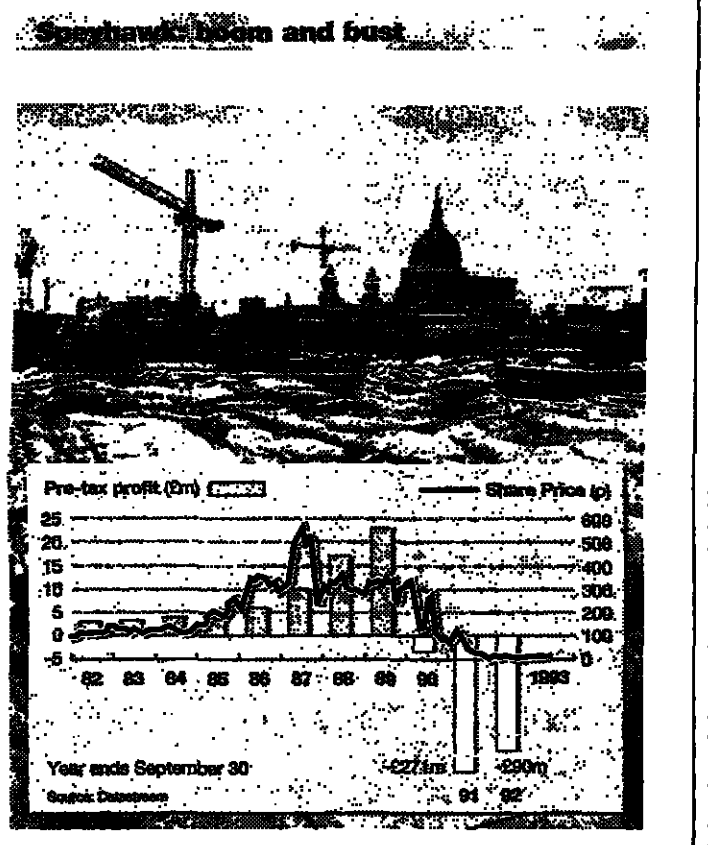
The fall in Speyhawk's asset values gave rise to heavy provisions which pushed the company into losses of £2.9m, £216.9m and £90m for the three years to September 1992.

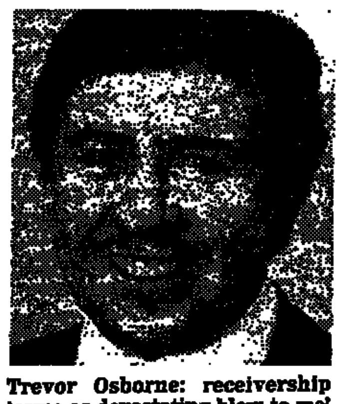
But the banks say their decision mainly stemmed from a growing unease about the deterioration in Speyhawk's position. Asset values have been under increasing pressure, particularly in the City of London. "It [supporting Speyhawk] was not really sustainable any more" says Barclays.

This is the first high-profile property receivership this year, but it follows a well-established pattern, in being another example of heavy losses inflicted on the banks by the collapse of large property companies, which last year included Mountleigh, Rosehaugh and Olympia & York, developer of Canary Wharf.

> **The question now taxing the industry is whether the receivership has implications for other property companies**

Speyhawk: boom and bust





Trevor Osborne: receivership 'came as devastating blow to me'

Both Mountleigh and Rosehaugh shared Speyhawk's fundamental predicament. They lacked a cushion of rental income, making them reliant on sales to cover interest costs. The property downturn has hit unlet buildings and development properties particularly badly, resulting in huge falls in asset values.

Speyhawk was never one of the largest development companies, but it was always one of the best known. It was set up by Mr Osborne, a former chartered surveyor with county council experience, in 1980 with the intention of developing buildings to sell to institutions. In 1981 it became the first of this new breed of merchant developers to join the London stock market.

The company built a number of high quality developments in London and the south-east of England. Its value peaked in 1987 at £140m, after which the combination of the stock market crash and increasing nervousness about property companies eroded its value. But in mid-1990, it looked as though a takeover would come to the rescue of the company's shareholders.

Nordstjernan, the Swedish property and construction group trying to increase its exposure to UK property, entered bid discussions. But the Swedish group withdrew in August 1990 after the invasion of Kuwait.

After that, there was no escape from the pressures of rising interest charges and falling trading profits. Its high gearing, its concentration on London and the south-east and the large proportion of development sites and unlet properties magnified the impact of the market's decline.

Speyhawk's banks argue that the picture remains unremittingly bleak. Although there has been an upturn in much of the property investment market, the change of fortune does not apply to much of Speyhawk's property. There is a two-tier property market, which has left unlet property as out of favour as it has ever been.

The decision to put the company in receivership did not merely stem from the bleakness of Speyhawk's position, however. "It was a combination of the banks thinking what is the point of going on because we will lose so much anyway, the difficulty of reconciling how the package is put together and concern about the costs and commitment of the management," says one banker.

The question now taxing the property industry is whether Speyhawk's receivership has implications for other property companies that are supported by the banks.

Many commentators believe that lenders are more prepared to dump property on the market because the property market is showing the first sign of a recovery, albeit a fragile and narrowly-based one.

"The banks are more likely to pull the plug as the market improves and they look to get their money back," says Mr Mike Riley, head of Chesterton's financial services division. "There will be more receiverships to come."

But bankers deny that Speyhawk's receivership is the start of a trend in which the banks become increasingly aggressive. "We don't see crystallising losses as in anyone's interests," says Barclays. "Receivership is the last resort."

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Amax and Cyprus Minerals combine to create new company

By Laurie Morse in Chicago

AMAX and Cyprus Minerals, two of North America's largest integrated mining companies, have agreed to combine most of their core operations to become a new company, Cyprus-Amax.

It will have assets of about $5bn and total revenues of $2.8bn, on the basis of 1992 figures. The new company will be the second largest copper company and the second largest coal company in the US.

Prior to the merger, Alumax, Amax's big aluminium producing subsidiary, will be spun off to Amax shareholders as an independent company.

In addition, Amax will distribute a 28 per cent interest in Amax Gold to Amax shareholders.

About 32 per cent of Amax Gold is held by the public and had year-end reserves of about 8.6m ounces.

The deal comes in the wake of Amax losses for 1992 of $148m, or $1.71 per share, before special charges, on sales of $3.7bn. The company passed its June dividend.

Alumax, which produces two-thirds of Amax's revenues, had a first-ever operating loss last year of $51m.

Mr Milton Ward, Cyprus president, estimates that the merger will allow the combined operations to make annual cost-savings of more than $100m.

In addition to share positions in Alumax and Amax Gold, Amax shareholders will receive one Cyprus share for each five Amax shares held, subject to adjustments for price fluctuations in Cyprus stock. At end-April, there were 87.9m Amax shares and 47.3m Cyprus shares outstanding.

Cyprus-Amax will assume about $1.2bn of Amax's long-term obligations, leaving Alumax with about $800m of Amax's remaining debt.

Cyprus-Amax will have a 40 per cent debt-to-capital ratio.

In addition to metals and chemical operations, Cyprus-Amax will hold interests in oil and natural gas.

Amax Oil and Gas produced 2.8m barrels of oil and 50bn cubic feet of natural gas last year, and has 865bn cubic feet of natural gas reserves.

SGS-Thomson surges to $24.4m in first quarter

By David Buchan in Paris

SGS-Thomson, the Franco-Italian semiconductor maker, yesterday announced a $24.4m profit for the first quarter of this year, after a total profit of $3m for the whole of 1992.

This is the first quarterly report SGS-Thomson has filed, making comparisons difficult, but it records a further step in the company's steady turnaround from the $102m loss it made in 1991.

At the same time, the French government has clarified its strategy towards the joint venture, which before last year's capital increase was held 45 per cent by the French state, 45 per cent by the Italian state, and 10 per cent by Thorn-EMI of the UK.

Mr Gérard Longuet, France's new industry minister, had created a stir two weeks ago when he said that SGS-Thomson needed "industrial partners" rather than CEA-Industrie, the French nuclear operating agency which the previous Socialist government brought into SGS.

Mr Longuet still wants big chip-users like Alcatel, the French telecommunications group, to have a strong influence on SGS-Thomson's industrial strategy, but not necessarily an equity stake in it.

Indeed he believes that it might even be better to keep private shareholders, with their inevitable shorter-term financial considerations, out of the capital of SGS which has to take a longer-run view of semiconductor development.

So, along with state-owned France Telecom and Thomson CSF, CEA-Industrie may keep its equity stake in SGS-Thomson, provided this is kept quite separate from its nuclear business.

Virgin Music division helps Thorn EMI double profits

By Michael Skapinker, Leisure Industries Correspondent

THORN EMI, the UK group whose interests include music, white and brown goods rental, light fittings, defence and security, saw full-year pre-tax profits almost double to £289.9m ($446.44m) from £147.9m.

The results were aided by a strong contribution from its newly-acquired Virgin Music Group.

Sir Colin Southgate, chairman, said that despite an improvement in the UK market, recession appeared set to continue in continental Europe and recovery in the US seemed gradual at best.

Operating profit rose 34.9 per cent to £379.3m in the year to March 31 1993, including Virgin's 10-month profit contribution of £53.1m. Turnover was up 12.6 per cent to £4.45bn.

Adjusted earnings per share, excluding exceptional items, rose from 42.7p to 53.9p. The final dividend is 23p, bringing the full-year payment to 32p up from 30.1p.

The group reported under the FRS3 standard with the previous year's figures restated.

Sir Colin said the group did not expect to be affected by the current Monopolies and Mergers Commission inquiry into UK compact disc prices.

"We don't expect to lose it. We welcome it because we can get the matter sorted out for once and for all," he said.

Sir Colin said the integration of Virgin's manufacturing and distribution into Thorn EMI's own operation would be completed by next year. Operating profit of the music division as a whole rose to £196.9m against £125.1m last time.

Rental operating profit increased to £115.3m from £105.9m, lighting was up to £15.2m against £12.6m and the HMV music retailing chain rose to £2.6m from £1.3m.

RWE to take holding in Endesa

By Tom Burns in Madrid

RWE, the German electricity utility, is to take a stake of between 4 and 5 per cent in Endesa, the state-controlled Spanish generator and distributor.

Endesa recently paid $217m for a 2 per cent stake in RWE. At current stock market prices, the RWE share purchase could total $467m. It will make RWE the biggest foreign shareholder in a Spanish electricity group.

The share purchases form part of a wide-ranging agreement between the two utilities, which are seeking to pool research facilities and develop joint ventures. Both are heavy users of coal-fired plants.

The agreement between the two utilities was signed last year shortly after Tractabel of Belgium bought 3 per cent of Iberdrola, the private-sector Spanish generator which, together with Endesa, controls the bulk of Spain's domestic electricity market.

Mr Feliciano Fuster, Endesa chairman, said his company had still to decide on whether to increase its stake in the German utility. RWE is likely to buy into Endesa through a mix of acquisitions on the Madrid market, and of direct purchases from INI, the Spanish state holding company which owns 67 per cent of the utility.

Boots to open outlets in UK food stores

By Guy de Jonquières, Consumer Industries Editor

BOOTS, Britain's largest chemists chain, is to open pharmacies and drugstore outlets in stores owned by J. Sainsbury, the country's biggest food retailer.

Boots will open outlets in seven Sainsbury superstores in southern England in July for a trial expected to last several months. The companies said that if the arrangement was successful it would be extended to other Sainsbury sites.

This will be the first time that Boots, which operates about 1,100 high street shops, has established outlets in stores belonging to another retailer.

Sainsbury's in the past five years has opened a few of its 330 supermarkets to 12 shops operated by Sketchley, the dry cleaners, and five belonging to Lloyds, the second-biggest chemists chain.

Sainsbury's has also been expanding its supermarket operations to non-grocery products, including petrol, tobacco, newspapers and cut flowers.

Boots said its planned pharmacies would dispense privately-prescribed medicines and that it was seeking licences to enable it to dispense National Health prescriptions.

The outlets would also sell a range of toiletries, cosmetics, baby products, special foods and film developing services similar to those available in Boots' smaller shops.

Sainsbury's, which proposed the collaboration to Boots, already stocks several of these product lines in its stores. The two companies said they expected to compete on price promotions and special offers.

Boots said it would judge the trial on the returns earned by the outlets and whether they affected sales in its existing local shops.

Tesco, Britain's second-largest supermarket chain, began opening in-store pharmacies in 1981 and now has more than 50.

SE Banken aid still under review

By Hugh Carnegy and Christopher Brown-Humes in Stockholm

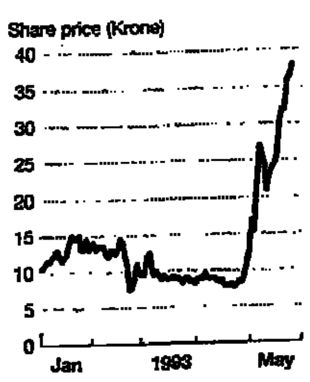
THE Swedish government said yesterday negotiations on a rescue package for loss-burdened Skandinaviska Enskilda Banken were continuing, despite market speculation that the bank might not need state assistance following its improved first-quarter result.

"They have handed in a formal application for support [last December] and their application has not been withdrawn. That is where the issue stands," said Mr Stefan Ingves, director-general of the Bank Support Authority, the state body set up to tackle the country's banking crisis.

The government announced in February it had concluded that SE Banken, which suffered a SKr5.37bn ($735.6m) operating loss last year, required state support. Mr Ingves said the situation had not changed as a result of SE Banken's quarterly results, which showed a sharp cut in losses and a shrinking of its portfolio of non-performing loans.

SE Banken

Share price (Krone)



Source: FT Graphite

However, he declined to comment on the likely extent of the assistance, or say when negotiations with the bank would be completed.

SE Banken's shares have risen more than five-fold in value since the publication of its first-quarter figures at the end of April. Yesterday, the most-traded A shares closed at SKr38.5, up SKr1 on the day. An important factor fuelling the surge has been speculation that the requirement for state aid would be limited, or even eliminated.

The bank repeated its own warning that its loan losses remained very high, and that "great uncertainty" continued to cloud the outlook for the full year. Mr Björn Svedberg, chief executive, has said he hoped an outline agreement on government support would be reached before the midsummer holiday.

Mr Ingves said it was still to early to say what the banking crisis would finally cost the government. So far, the state has put up SKr67.5bn in a mixture of loans, guarantees and equity injections. It now owns Gotabank and Nordbanken, two of the country's four principle banks.

He said it would take until the end of the year to strip out all the bad loans – mostly to the commercial property sector – from Gotabank into a legally separate "bad bank", leaving the remainder to be re-privatised in one piece or broken down into units. The government has already distributed an investor memo for the sale of Gotabank, eliciting 20 expressions of interest from Swedish and foreign investors.

Mr Ingves said Gotabank had used up about SKr6bn of the SKr10bn advanced to it in guarantees. "It is going to cost a lot of money," he said. "The government is not going to get all its money back."

He said he did not anticipate selling off Nordbanken at least until next year. The bank support authority has already stripped out SKr50bn in bad loans from the bank, allowing it to show a first-quarter operating profit following a SKr16bn loss in 1992.

Argyll pre-tax income up 14%

By Paul Taylor in London

ARGYLL GROUP, the UK's third largest food retailer, which runs the Safeway and Lo-Cost/Presto chains, yesterday reported an 14 per cent gain in full year profits.

Pre-tax profits increased to £417.3m ($642.64m) in the 53 weeks to April 3, compared with £364.5m in the previous 52 weeks on sales which grew by 10 per cent to £5.54bn. After adjusting for the extra week and for the disposal of the group's drinks retail businesses in mid-1991, sales increased by 9 per cent.

Argyll's results, described by Sir Alistair Grant, chairman, as "very respectable in a tough market," follow similar profit gains announced by J. Sainsbury and Tesco in recent weeks.

Group operating profits climbed 18 per cent to £387m as operating margin widened to 7.4 per cent from 6.9 per cent. They were underpinned by a 22 per cent increase in operating profits to £336.2m from the Safeway stores on sales which grew by 13.3 per cent to £4.42bn. Safeway's operating margin increased from 7.5 per cent to 8.1 per cent.

New Safeway stores, less store closures, contributed 8.8 percentage points of the sales gain, with 2.3 percentage points coming from existing stores and the balance from the additional trading week. Inflation was 2 per cent.

This year 24 Safeway stores are due to open at an average cost of £16.5m each and overall capital spending is projected to increase to a peak of £650m.

Earnings per share grew by 12 per cent to 27.1p compared with 24.2p last time and a final dividend of 7.35p against 6.55p will lift the total payout by 12 per cent to 10.9p from 9.75p.

L'Oréal restructures its capital

By Alice Rawsthorn in Paris

L'OREAL, the French cosmetics group, is streamlining its share structure in a deal whereby Gesparal, its holding company, will offer ordinary shares in exchange for the investment and voting right certificates held by other investors.

The swap, which involves Gesparal giving four shares for every five investment certificates, and two shares for five voting right certificates, comes amid speculation about the long-term ownership of L'Oréal.

Gesparal, which controls L'Oréal with a 55 per cent holding, is majority-owned by Mrs Liliane Bettencourt, daughter of L'Oréal's founder. Nestlé, the Swiss foods group, owns the remaining 49 per cent.

Yesterday's share swap, which involves Gesparal buying 2.9m investment certificates and 95,000 voting right certificates, is meant to modernise L'Oréal's share structure.

Hermès to offer 4% of shares to public

By Alice Rawsthorn

HERMES, one of France's most famous luxury goods groups, yesterday finalised plans to go public by floating 4 per cent of its shares on the Paris second market at FFr300 each.

The flotation, which values the group at FFr3.2bn ($580m), will involve the sale of 425,000 shares. The founding family's stake in Hermès, best-known for its silk scarves and classic Kelly bags, will fall from 90 per cent to 81.4 per cent.

Hermès was founded in the 1830s in Paris as a manufacturer of horse harnesses. The business has been run by the Hermès family since, but was given a new lease of life under the management of Mr Jean-Louis Dumas in the flourishing luxury goods market of the 1960s.

The luxury business has since slowed down, reflecting the economic pressures of recession.

Hermès has emerged unscathed, mainly due to its skill at emphasising its classic styles and hand craftsmanship. It saw net profits rise from FFr121m in 1991 to FFr176m, on sales of FFr2.46bn, in 1992 and anticipates a modest increase to FFr180m for 1993.

Declining European sales hit Ford

By Martin Dickson in New York

DETERIORATING economic conditions in continental European countries mean that Ford Motor no longer expects to be operating in the black in the area this year, Mr Wayne Booker, head of the company's international automotive operations, said yesterday.

Earlier this year, Ford had declared that its goal was to break even or better in Europe in 1993.

This would reverse last year's losses, but in April the company announced a first-quarter European loss of $82m.

Mr Booker, speaking at a New York press briefing, said that when the company made its earlier projections it had not expected the current 20 per cent decline in the continental vehicle market, due to slowdowns in all the leading economies.

A mild recovery in the British economy, where Ford is the car market leader, was not likely to offset the continental decline.

Ford now expected total demand in Germany to be around 3.8m units this year, compared with nearly 4m in 1992 and the peak of 4.2m reached after unification.

The company's results would also be affected by currency weakness in some countries, notably Italy, where it has 12 per cent of the market share.

However, Ford expected to gain market share in Europe, due largely to the introduction in March of its new medium-range car, the Mondeo.

Turning to Asia, Mr Booker said Ford might consider making a making a large capital expenditure in China in two to three years' time.

One of the reasons the group had been reluctant to enter the market was the lack of a local supplier base, but Ford's automotive components group recently signed letters of intent with two Chinese automotive suppliers to study possible joint ventures around Shanghai.

Ford is also expected to announce next month the names of the first of a chain of dealerships it is establishing in China.

Renovations produce benefits for Kmart

By Nikki Tait in New York

KMART, the Michigan-based retailer which has been struggling to improve performance in the highly-competitive discount store market, yesterday claimed its $3bn store renovation programme was producing results.

Mr Joseph Antonini, chairman, told the annual meeting that annualised same-store sales growth from outlets which had been overhauled was running at about 6 per cent. He added that the group of stores which the US retailer acquired in the Czech Republic and Slovakia was being refurbished, and "re-openings" were planned for next autumn.

The sales growth from the overhauled domestic stores is substantially better than for the group overall.

In the first quarter of 1993, when Kmart reported an 80.7 per cent fall in after-tax profits, comparable store sales in the general merchandise division rose 1.4 per cent. For Kmart overall (including the specialty retail chains) the figure was 0.1 per cent.

Kmart announced the capital expenditure programme in 1990, and by the end of 1992, had completed renovations at about half its 2,400 discount store outlets.

Meanwhile, there was further evidence of problems in the US discount store sector yesterday when Waban, the Massachusetts-based retailer, announced Mr John Levy had resigned as president and chief executive.

Waban is the smallest of the five leading operators of "warehouse clubs", the ultra-cheap retail outlets which have expanded hugely but whose future growth potential is being questioned.

Wal-Mart was also active yesterday, launching a $1bn issue of debt securities, according to reports in New York.

Deere to take $80m charge to cover Europe staff cuts

By Laurie Morse in Chicago

DEERE and Company, the tractor and heavy equipment maker, intends to reduce its western European workforce by 25 per cent and to take an $80m charge to second-quarter earnings to cover the restructuring.

The company reported second-quarter net income of $110.2m, or $1.44 per share, before the charge. Including the charge, Deere earned $30.2m, or 39 cents, against last year's second-quarter results of $44m, or 58 cents.

Deere intends to reduce its European workforce by 2,000 people in the next few years, with about 1,200 of the redundancies to be recorded in 1993.

It has 8,000 employees in Europe, and makes agricultural machinery and engines at plants in Germany, France and Spain.

Strong sales in North America offset weakness in Deere's European operation, said Mr Hans Becherer, chairman. "Excluding the restructuring charges, results for the quarter were significantly better than last year as a result of substantially improved North American operations."

Worldwide sales and revenues increased by 13 per cent to $2.10bn in the second quarter, from $1.85bn last time. Of the total, North American equipment sales were up 20 per cent at $1.34bn, and overseas equipment sales rose 3 per cent at $448m. Its financial services arm had second-quarter sales of $295m, up 7 per cent over the second quarter of 1992.

Worldwide production tonnage was up 7 per cent in the second quarter, and is now projected to be 8 per cent higher for the year.

Deere said its new tractor line enjoyed strong sales in the second quarter, but European results remained soft.

"Although reception of our new tractor line has been positive, industry retail sales of agricultural equipment in Europe are expected to continue the downward trend of recent years as European agriculture goes through a period of fundamental change," Mr Becherer said.

"As a result, our overseas margins continue under considerable pressure."

Accounting change puts Varity into deficit

By Jeremy Bennallack-Hart in New York

VARITY, the US automotive, farm and industrial equipment maker, reported first-quarter income of $11m before one-off charges of $146.1m for changes in accounting methods. The group suffered a net loss of $2.4m in last year's first quarter.

Earnings per share were 20 cents before the charge, with a loss per share of $4.50 after the charge. Last time, the loss per share was 28 cents.

Sales fell to $645m from $823.8m, reflecting the disposal of several businesses last year to reduce debt and fund future growth.

Mr Victor Rice, chairman and chief executive officer, said the disposals had had an immediate impact on earnings. After reducing consolidated debt by more than $800m last year, he said, interest expense was $10.7m in the quarter, down more than 70 per cent on last year.

He added that continuing robust US car production and worldwide acceleration of ABS applications were "favourable developments" for the group.

Kelsey-Hayes, the automotive components unit, reported sales of $302m and operating income of $25m, up 39 per cent adjusted for disposals.

Massey Ferguson turned in operating losses of $2m on sales of $189m. Mr Rice said this was a respectable performance because the first quarter was traditionally the weakest in the farm equipment sector while Europe – Massey's main market – was down 10 per cent.

Perkins' operating income was steady in the quarter despite the recession in Europe, while sales were down 13 per cent to $158m – although they would have been unchanged after allowing for currency fluctuations.

Varity said order rates for shipment later in the year had improved significantly on year-ago levels.

Dell falls short of expectations

By Jeremy Bennallack-Hart

SHARES in Dell Computer tumbled more than 20 per cent yesterday after the group reported first-quarter earnings well below expectations and said it would not meet its full-year forecast. In early trading, the shares were down $7¼ to $25 on the Nasdaq market in New York.

Poor results from the notebook computer business were blamed for the drop in net income to $10.2m, or 25 cents a share, from $19.8m, or 52 cents.

The company said significant costs associated with delayed and cancelled notebook projects combined to lower pre-tax income by more than $20m and earnings per share by as much as 35 cents.

Mr Bruce Sinclair, managing director of Dell in the UK, where sales and profits grew strongly through the quarter, said the company had underestimated the resources necessary to design and manufacture world-class notebook computers.

Dell's problem is worrying because the notebook computer sector is fast-growing and it has an excellent reputation for quality products. Taken together with sharply rising costs, there are concerns senior management has lost its sharp focus on the market.

Mr Michael Dell, chairman and chief executive officer, said the delays and cancellations would continue to hit earnings over the next two quarters.

"As a result, we no longer expect to reach our earnings forecast of $3.30 for this fiscal year. But, because of the strong momentum in our core desktop and server business, we believe we can achieve revenues in excess of $3bn this fiscal year."

Industry analysts felt Dell's problems may go beyond notebook computers. They noted that costs were increasing – cost of sales grew from $270.1m to $559.2m – as the company expanded distribution worldwide at a time of low profit margins for the personal computer industry.

An official at rival Compaq Computer said its notebook products were in strong demand and the company expected to overtake Toshiba of Japan as the number one supplier of notebook computers in Europe in the current quarter.

Overall sales in the quarter rose 84 per cent to $672m despite the notebook shortfall. Sales to leading corporate, government and educational accounts more than doubled at $330m. Those to medium and small-sized businesses and individual customers showed gains of 76 per cent to $259m.

Esselte down but sees recovery

By Hugh Carnegy in Stockholm

ESSELTE, the Swedish office products group, yesterday reported profits after financial items down 23 per cent to SKr114m ($15.61m) in the first four months, compared with SKr149m in the corresponding period last year.

The group was hit by the economic slowdown in leading European markets, with sales in some countries falling by as much as 15 per cent.

But Esselte said it still expected full-year profits to be ahead of last year's SKr259m, due to the heavy currency losses and non-recurring rationalisation charges which held back 1992 performance.

Preliminary figures for the first four months showed sales 14 per cent ahead of last year's SKr3.34bn at SKr3.81bn. But the company said the real comparable result was a fall of 6 per cent after the effects of last autumn's heavy devaluation of the Swedish kronor was taken into account.

A bright spot was an upturn in the US and Canada, which account for 27 per cent of group turnover. But there were declines in sales of up to 15 per cent in leading markets, such as France and Spain, and "a big question mark" hung-over performance in Germany, the company added.

The group, which once employed more than 17,000 people, continued to shrink, with the number of employees declining to 11,682 by the end of April.

"We are confident now that we have control over our costs. If the market continues to go down, we can cut further, but when it goes up we believe we are set to increase our market share," the spokesman said.

French unit puts MoDo in the red

By Christopher Brown-Humes in Stockholm

MODO, one of Sweden's leading forestry groups, suffered a SKr200m ($27.39m) loss after financial items in the first quarter.

The group warned it would remain in the red for the rest of the year, even if market conditions showed some improvement.

The company blamed the deficit on its French unit, which recorded a loss of SKr310m, SKr180m more than a year ago, because of low prices and the strength of the French franc.

By contrast, it noted that its Swedish operations were back in profit, thanks to lower production costs and the kronor's depreciation.

The latest result is an improvement on the first three months of last year when the group made a SKr244m loss after financial items.

But the group said that despite the weaker kronor, prices for many of its products had fallen sharply as a result of last autumn's currency turbulence.

"We believe prices have now stopped falling. Towards the end of the year the market situation ought to start to improve, which should increase the chances of lifting prices," said Mr Bengt Löf, chief executive.

Sales in the latest period rose to SKr4.32bn from SKr4.19bn and operating profit increased to SKr164m from SKr43m.

The company said it expected a negative result this year, despite SKr700m in cost savings. Last year, the company suffered a SKr1.7bn loss.

Koreans rescue Curragh Resources

By Bernard Simon in Toronto

TWO Korean companies, Korea Zinc and Samsung, have come to the rescue of Curragh Resources, the Canadian zinc producer which filed for bankruptcy protection last month.

Curragh said yesterday that it would receive C$50m (US$39.3m) of new equity from the two Korean groups, subject to the completion of a financial restructuring and several other conditions.

The Korean groups will own about 50 per cent of the restructured company, although this would be cut to 43.5 per cent after the exercise of options by other shareholders. Curragh said it was pursuing efforts to raise another C$25m of new equity.

The involvement of the Koreans means that Curragh's big zinc mine at Faro in the Yukon, which is mothballed, will re-open in September.

The company and the Yukon government would also be committed to completing the nearby Grum mine. Yukon would be required to provide "long-term competitive power rates".

Other zinc producers have criticised the Yukon government's backing for the Faro and Grum mines at a time when the world zinc market is heavily over-supplied.

Curragh suffered a C$66m first-quarter loss, on net sales of C$20.4m.

Besides being hit by low zinc prices, the company has been battered by the repercussions of an explosion at its Westray coal mine in Nova Scotia last year in which 26 people were killed. It took a C$23.9m write-down on the investment.

Hydro-Quebec ahead 16% at C$520m

By Robert Gibbens in Montreal

HYDRO-QUEBEC, one of Canada's two biggest electrical utilities and a big international borrower, posted C$520m (US$409m) net profit for the first quarter, up 16 per cent from a year earlier. The group benefited from rationalisation and lower interest rates.

The first quarter usually provides most of the year's earnings because of high industrial, commercial and consumer demand in the severest months of winter.

But Hydro-Quebec forecasts confidently it will earn at least C$760m for the full year, well up from 1992, despite the slow recovery.

The utility is 100 per cent owned by the Quebec government.

Last year's heavy rainfall refilled reservoirs after two lean years, so that in the first quarter it was not forced to buy higher-cost power from New Brunswick and Ontario to meet peak demand.

Industrial demand was strong, particularly from smelting and pulp and paper, where operating rates were high. Exports of power to the US were up slightly, while operating expenses overall fell 5.2 per cent. The 1993 investment programme totals C$4.4bn.

DuPont to buy Monsanto unit

DUPONT, the US chemicals group, is to acquire Monsanto's worldwide colloidal silica business, AP-DJ reports.

DuPont said it would acquire the US group's production facilities at Ruabon, North Wales, the Monsanto Syton trademark and all related assets of the business.

DuPont sells colloidal silica under the Ludox trademark. It said the acquisition would provide manufacturing and technical service bases for DuPont's operations in Europe, Middle East, and Africa.

Colloidal silica is primarily used as a binder in investment casting and ceramic fibre shapes.

Saurer advances 68% to SFr21.4m

By Ian Rodger in Zurich

SAURER, the Swiss textile machinery and motor components group, said net income jumped 68 per cent in 1992 to SFr21.4m ($14.54m), due to improved operating results and the consolidation of new businesses.

Turnover more than doubled to SFr1.81bn following the consolidation of the German Schlafhorst textile machinery group and the US metals company, Xaloy. Textile machinery accounted for three-quarters of turnover.

At the operating level, the group turned round from a SFr85m loss to a SFr55m profit.

Mr Melk Lehner, the chief executive, said the textile division operating result improved by some SFr140m, mainly as a result of cost-cutting.

The motor components division, which makes transmissions for special vehicles, reached break-even last year and would benefit this year from the devaluation of the Italian lira.

Mr Lehner said the group was still aiming to acquire a 15 to 20 per cent stake in Rieter, the Swiss textile machinery company. It now holds 14 per cent.

Rieter said in a letter to shareholders in April that it intended to remain independent.

JAPANESE CORPORATE NEWS AND RESULTS ROUND-UP

Debt-laden Kumagai's profits slide by 39.7%

By Robert Thomson

KUMAGAI GUMI, the ambitious Japanese developer and contractor, has suffered a 39.7 per cent slide to Y9bn ($81.81m) in pre-tax profits as its leading banks intensify the restructuring of the company, which has debts of Y738bn.

Sales for the year fell 5.8 per cent to Y1,078.6bn, but new orders were down 27.6 per cent to Y900.7bn in the same period, indicating there are tough times ahead for Kumagai.

Japanese contractors have reported a fall in orders due to a decline in corporate capital spending and the domestic property market slump, but Kumagai's position is made more complex by its exposure to lossmaking ventures in the UK and US.

The Long-Term Credit Bank of Japan is transferring the former head of its London branch to Kumagai to head its international operations. He will join an executive from Sumitomo Bank who is responsible for restructuring the domestic business, badly bruised by the collapse of property prices.

Kumagai aims to sell Y300bn in properties over five years to reduce its debt, but the poor health of the domestic and international markets has meant few sales. Profits on its property business fell 69 per cent to Y4.3bn last year.

The company must refinance Y64.2bn in warrant bonds this year. Extra profits were realised last year by selling off long-term stock holdings which, on book value, were reduced from Y35.3bn to Y16.7bn.

Kumagai forecast that sales would fall by about 10 per cent to Y900bn this year, while pre-tax profits will slide 70 per cent to Y9bn and net profits by almost 90 per cent to Y1bn. Kumagai is to move management staff to its sales division, while directors would take a 20 per cent pay cut and managers would have special allowances halved. It now hopes to reduce its debts by at least Y200bn over the next two years.

Nippon Housing suffers Y45bn loss

By Robert Thomson in Tokyo

NIPPON Housing Loan, the ailing Japanese property finance company, yesterday reported a pre-tax loss of Y45.4bn ($413m), highlighting the need for its recent rescue by the founding banks, which have slashed interest rates on their loans to the institution.

The loss is the first since Nippon Housing was listed in 1984, when it was lending primarily to new home-buyers.

However, in the late 1980s, the institution ventured into high-risk property developments, leaving an estimated Y1,200bn in non-performing loans out of a total portfolio of Y2,140bn.

Nippon Housing reported a net loss of Y55.6bn, compared with a loss of Y6.5bn in the previous year ending in March, while its operating revenue fell 40 per cent to Y131.3bn. The difference between its loan receipts and repayment commitments was Y18.7bn, while it set aside Y27.1bn in loan-loss reserves.

The company, which did not produce a forecast for the current year, is one of eight troubled Japanese housing loan companies established by banks and brokers when the leading banks were concentrating on corporate clients. All were ambitious lenders during the late 1980s, when the banks became more interested in home finance and they were forced to find new customers.

Two other housing loan companies, Sogo Jukin and Juso, which was formed by seven trust banks in 1971, are likely to be weighed down for the next decade by their non-performing loans even though their founding banks have agreed to accept virtually no interest repayments on loans to the institutions.

The 65 founding banks at Sogo Jukin are expected to reduce their interest rates to zero, while agricultural institutions, big lenders to the housing loan companies, will take a less severe cut from about 6 per cent to 4.5 per cent, essentially because of their political influence.

Nippon Housing, listed on the Tokyo exchange, is the only one of the eight companies that is required to produce a full statement of accounts, but its figures are likely to be fairly typical of the group.

Cash on hand was down 44 per cent on the year, while it sold half of its investment stocks during the year and is showing a book loss of Y23bn on the remaining stocks.

Shiseido's sales keep their good looks

By Michiyo Nakamoto in Tokyo

JAPANESE consumers' preoccupation with good looks was apparently little affected by the economic slowdown in Japan.

Shiseido, the cosmetics group, posted a marginal increase in pre-tax profits to Y32.4bn ($294.54m) on sales 3 per cent ahead at Y400.4bn despite generally depressed consumer spending in Japan.

Shiseido saw strong demand for its toiletries in particular, which account for more than 24 per cent of its revenues. The toiletries division, which sells products ranging from shampoo to disposable nappies, is an area into which the company has been putting a lot of effort.

Meanwhile, the cosmetics division, which accounts for nearly 70 per cent of turnover, posted a 1.5 per cent increase in sales to Y278.8bn.

Although cosmetics was not immune from the fall in consumer spending, Shiseido found that shoppers were on the whole loyal to its brands, particularly in skincare products and to higher end cosmetics products generally.

Consumers also took to the value-added products launched by the group, such as its "whiteness" cosmetics for use against freckles.

Shiseido is emphasising its pharmaceuticals business and is entering the prescription drugs market with the launch of a medicine jointly developed with a Japanese pharmaceutical company, which is used in cataract surgery and cornea transplants.

The company says that this business, which will take it back to its roots as a pharmaceuticals concern, is four times larger than the cosmetics industry.

● Kanebo, the Japanese cosmetics and textiles manufacturer, reported a 48 per cent fall in pre-tax profits for the year to March and a dividend cut.

Parent company taxable profits fell to Y4.49bn from Y8.63bn the year before. Sales rose nearly 3 per cent to Y510bn.

Kanebo said cosmetics sales, which comprised about 30 per cent of overall sales, rose 4 per cent but the gain was offset by a 6 per cent fall in textile revenues.

The company warned that sales would fall further to Y480bn in the current year while pre-tax profits would more than halve to Y2.3bn due to lower income from sales of securities and property.

TDK unveils 43% decline in parent pre-tax income

By Michiyo Nakamoto

TDK, the world's largest manufacturer of magnetic tapes, yesterday unveiled a 43 per cent fall in parent pre-tax profits to Y18.9bn ($171.8m) for the year to March, in the face of a sharp downturn in the Japanese economy.

Sales dropped 10 per cent to Y367.3bn, while net profits fell by 43 per cent to Y10bn.

In particular, sales of electronic materials and components were adversely affected by the sluggishness of the Japanese economy and fell 10 per cent. Recording media sales, meanwhile, slipped 9 per cent, due in part to a decline in tape exports to Europe resulting from the opening of a new factory in Luxembourg.

While demand from computer manufactures was buoyant, that from audio and video manufacturers was very weak, TDK said.

Consolidated pre-tax profits fell 30.9 per cent to Y33.5bn – having also been affected by the sharp appreciation of the yen – and growth in overseas business was not able to offset the slump in Japan.

TDK expects parent pre-tax profits to increase marginally to Y19bn on sales 1.5 per cent up to Y362bn.

East Asian demand limits Yamaha Motor downturn

By Robert Thomson

YAMAHA Motor, the motorcycle maker, unveiled a 33.7 per cent fall to Y4.97bn ($45m) in pre-tax profit for the year to March, but would have reported a far larger drop without a surge in demand from China and other east Asian countries.

Sales for the year were 1.9 per cent lower at Y471.5bn, mainly due to a 11.2 per cent fall in domestic motorcycle sales. Motorcycle exports were 4.6 per cent higher, but profits on those sales were eroded by the appreciation of the yen during the year.

Exports accounted for 62.7 per cent of total sales, including those of marine craft, up from 58.8 per cent in the previous period, and a sign of the Yamaha's vulnerability to fluctuations in the yen's value.

The company's car engine business is still struggling, as sales during the year fell to Y35.9bn from Y39.7bn, while sales of marine craft were down 10.6 per cent to Y96.5bn.

Yamaha forecast a 4 per cent rise in sales this year to Y490bn, as it expects domestic sales to recover during the period, but it still forecast another 9.5 per cent decrease in pre-tax profit.

Seiko profit plunges but share price firms

By Wayne Aponte in Tokyo

SEIKO, the leading Japanese watch and clock maker, blamed weak domestic demand and global recession for a 61.8 per cent fall in pre-tax profits to Y1.3bn ($11.76m) for the year to March, its second consecutive fall.

The company said the shift in Japanese consumption to lower-priced products amid the prolonged economic downturn and diminishing exports had put pressure on earnings.

Net profits fell 23.8 per cent to Y1.1bn and sales by 10.2 per cent to Y268.2bn. Exports tumbled by 7.4 per cent.

In spite of the sharp plunge in pre-tax profits, Seiko's shares rose Y20 to Y1,300 on the Tokyo stock exchange yesterday. Analysts said investors had discounted the slide and Seiko's shares were likely to be popular due to its forecast of pre-tax profits soaring 81.8 per cent to Y2.5bn in the current year.

The company predicts sales will move 2.5 per cent higher to Y275bn in tandem with an improving world economy.

Sales down 5% at Sumitomo Electric

By Michiyo Nakamoto

SUMITOMO Electric, Japan's largest manufacturer of wires and cables, yesterday posted a 15 per cent drop in parent pre-tax profits to Y30.4bn ($276.36m) for the year to March from Y35.9bn the year before, on a downturn in Japanese capital spending.

Sumitomo, which supplies wires and cables to NTT, as well as power companies and automobile manufacturers, also reported a 5 per cent fall in sales to Y761.2bn.

Sales for the year to March 1994 are forecast at Y760bn with pre-tax profits at Y31bn, as the benefits of cost-cutting measures show through.

TNT still deep in red but improving trend continues

By Bruce Jacques in Sydney

TNT, the Australian transport group, stayed deep in the red in the nine months to March, but its directors have pointed to an improving underlying trend which continued in the current quarter.

The company said its net equity-accounted loss for the nine months had grown to A$92.04m (US$63.5m) from A$88.96m on revenue of A$4.07bn, down from A$4.69bn.

However, at the pre-tax level TNT managed a turnround to profits of A$4.2m from losses of A$56.9m, largely reflecting lower interest and depreciation charges. The interest provision fell to A$69.9m from A$84.4m and depreciation was down to A$74.8m from A$107.2m.

A net abnormal loss of A$50.5m against a loss of A$10.8m previously and a rise in the tax provision to A$45.3m from A$20.9m saw the bottom line slide into the red.

TNT directors said the result was influenced by seasonal factors and a deepening recession in Europe. "Despite these negative factors, the group recorded a modest improvement in operating results," they said.

"While the economic outlook worldwide is expected to remain difficult, it is anticipated that the improvement in operating performance... will continue for the last quarter."

They said the GD Express Worldwide operation had continued incurring losses, but a plan to achieve profitability within two years was attainable. They said the company's domestic freight businesses in the UK and Italy made excellent profit contributions, TNT Germany traded profitably, but Spanish freight operations were hit by continuing recession.

TNT Canada lifted profits, while Awas, the aircraft leasing operation jointly-owned with News Corp, made a reduced profit contribution. Directors said abnormal losses mainly comprised a A$52.5m provision for GD Express, unrealised currency losses and tax changes.

Digital's South African unit to open in July

DIGITAL Equipment, the US computer group, is to open a wholly-owned subsidiary in South Africa, AP-DJ reports from Johannesburg. The new subsidiary, Digital Sales & Services South Africa, will begin operations on July 1.

Digital estimates South Africa's annual investment in information technology is $1.7bn, making it the largest market in the world without a Digital presence.

"Many of our major international customers operate here and they have asked Digital to come and support them as we do elsewhere," said Mr Alberto Fresco, Digital Europe's vice-president.

Digital, the world's third-largest computer company, said it had been monitoring the economic, political and social climate in South Africa for two years and decided it was time to participate.

The new subsidiary would offer Digital's full range of open, networked computer systems, services and systems integration for personal computers to mainframes.

Mr Alan Peters of Digital Europe has been made general manager of the subsidiary. The majority of employees would be South African.

Ms Sallie Crenshaw, Digital's international trade director, said the company would begin with 50 employees, including four senior US-based Digital managers who would help set up the local operation and develop their local management replacements before returning to the US.

The company hoped to have 200 local employees by 1996. "We hope this will send a signal of commitment and confidence to other foreign investors considering the South African market," she added.

LEGAL NOTICES

UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF NEW JERSEY

In re:

MUTUAL BENEFIT OVERSEAS, INC.,

Debtor.

(Hon. Novalyn L. Winfield)

Chapter 11

Case No. 93-20134 (NLW)
Hearing Date: Oral Argument Waived

ORDER SETTING 341 (a) MEETING, FIXING BAR DATES, AND APPROVING METHOD OF NOTICE THEREOF

Upon the joint application (the "Application") of the Debtor and Official Creditors Committee (the "Committee") of Mutual Benefit Overseas, Inc., the debtor and debtor-in-possession herein ("MBO" or "Debtor") pursuant to § 341 of the Bankruptcy Code (the "Code"), 11 U.S.C. § 341, Rules 2002 (a) (1) and (8), (l) and (m), and 3003 (b) and (c) (2) of the Federal Rules of Bankruptcy Procedure (the "Rules"), and Rule 26 of the Local Rules of Bankruptcy Practice for the District of New Jersey, seeking the entry of an Order setting the meeting of creditors, fixing bar dates, and approving method of notices thereof, and it appearing that the relief requested in the Application is necessary and in the best interest of the estate, good and sufficient notice having been provided to the parties in interest, and after due deliberation and sufficient cause appearing therefor,

IT IS, on this 17th day of May, 1993,

ORDERED:

1. That the meeting of creditors required by § 341 (a) of the Code shall be held on Wednesday, June 30, 1993 at 10:00 a.m. at the office of the United States Trustee, 1 Newark Center, 21st Floor, Newark, New Jersey (corner of Raymond Boulevard and McCarter Highway).

2. That Monday, August 16, 1993, at 5:00 p.m. (E.D.T) is hereby fixed as the bar date in this case for filing proofs of claim or interest (the "Bar Date"). All creditors, individuals, partnerships, corporations, associations, governmental units, and any other entities that hold or assert a claim (as defined in § 101 (5) of the Code) against the Debtor arising prior to, or which may be deemed to have arisen prior to January 26, 1993, the date of the commencement of this Chapter 11 case, (the "Petition Date"), which claims are based on the Debtor's primary, secondary, direct, indirect, secured, unsecured, contingent, guarantee or other liability and interest holders whose interests are based on stock ownership or something other than shares of the Debtor's stock and that wish to vote on any plan or plans of reorganization in the Debtor's chapter 11 case or share in any distribution thereunder must file proofs of claim so that they are received by the Clerk of the United States Bankruptcy Court at 50 Walnut Street, Newark, New Jersey 07102, U.S.A., prior to the Bar Date, or be forever barred from filing such claims.

3. All holders of claims or interests who fail to file a timely proof of claim or interest shall be forever barred from asserting such claims or interests against the Debtor's estate and from being treated as a creditor or interest holder for the purposes of voting on any plan or plans of reorganization and from sharing in any distributions thereunder; nevertheless, the holders of such unfiled claims or interests shall be bound by the terms of any such plan or plans of reorganization confirmed by this Court. Proofs of claim must be filed only by those claimants (i) whose claims or interests are not listed on the Debtor's Schedules of Assets and Liabilities ("Schedules"), (ii) whose claims or interests are listed on the Schedules as disputed, contingent, or unliquidated, (iii) who dispute the stated amount of their claims or interests, or (iv) who dispute the manner in which their claims or interests are listed.

4. The record and beneficial holders of Debtor's Commercial Mortgage Backed Bonds Series 1986-1, need not file proofs of claim since such claims shall be filed by the indenture trustee.

5. Entities that are liable with the Debtor to a creditor or that have secured a creditor's claim against the Debtor, including but not limited to sureties, guarantors or others asserting rights of reimbursement, contribution or subrogation ("Entities") that might file a proof of claim on behalf of such creditor under § 501 (b) of the Code, or Rule 3005, must file such proof of claim by the Bar Date. In the event that both a creditor and an Entity file a proof of claim on behalf of such creditor, the Entity's claim on behalf of such creditor shall be automatically disallowed.

6. The Bar Date shall not extend to (i) claims for which specific deadlines have been previously fixed by the Court, (ii) claims which may arise from the Debtor's future rejection of executory contracts or unexpired leases, in which case the deadline for filing proofs of claim shall be thirty (30) days from the entry of an order approving the rejection of such lease or executory contract, (iii) claims which may arise from the Debtor's future recovery of any voidable transfer, in which case the deadline for filing proofs of claim shall be thirty (30) days from the entry of an order or judgment granting such recovery, and (iv) tax claims, described in § 502 (i) of the Bankruptcy Code, that do not arise until after the commencement of this case.

7. If it is necessary for the Debtor to amend the Schedules to more accurately reflect known claims against or interest in the estate, appropriate notice thereof will be given to each such entity whose status and/or claim has been revised, who will in such event be afforded an additional thirty (30) day period following the giving of such notice to file or amend their proofs of claim or interest, if necessary.

8. All holders of claims or interest shall have the burden of informing the Clerk of this Court, counsel for the Debtor and the Committee of any change of address.

9. Counsel for the Committee shall serve a copy of this Order by first class mail, postage pre-paid to the U.S. Trustee, all parties who have requested notice in these proceedings, and all alleged creditors or interest holders known to the Committee, other than Bondholders.

10. Counsel for the Committee shall cause a copy of this Order to be published on one weekday in the Financial Times of London, the Wall Street Journal, (National Edition) and Luxemburger Wort, on or before May 28, 1993.

HON. NOVALYN L. WINFIELD
United States Bankruptcy Judge

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PERSONAL

INTERNATIONAL CAPITAL MARKETS

German bunds rally on better inflation data

By Sara Webb in London and Patrick Harverson in New York

GERMAN government bonds, which have suffered a sell-off in the wake of Denmark's vote in favour of the Maastricht Treaty a week ago, sprang back to life yesterday with a half point rally.

The bounce was prompted mainly by technical factors, dealers said, although the latest inflation figures also helped sentiment, with the state of North Rhine-Westphalia reporting a 3.9 per cent rise in prices year-on-year.

The bund future contract opened at 93.86 and reached a high of 94.32, ending the day at around 94.30. Volume was heavy at 83,000 contracts. The DTB June Bobl future rose to 98.63 from 98.33.

GOVERNMENT BONDS

■ DETAILS of the French government's new FFr40bn bond depressed long-dated government debt prices, but short-dated issues remained firm.

The June 10-year future settled at 117.10, down 0.06, while the 10-year OAT yielded 7.19 per cent against 7.18 per cent at the previous close.

■ THE Bank of Spain trimmed its key money market rate by 25 basis points to 11.25 per cent at yesterday's auction of central bank certificates, giving a small lift to bond prices. The 10-year 11.30 per cent bond yielded 10.91 per cent, against 10.92 per cent on Monday.

■ UK government bonds traded in a narrow range ahead of today's gilt auction of £3bn of 7¾ per cent stock due 2006, and ended the day slightly firmer.

Market participants said the gilt market has held up reasonably well ahead of the auction, helped by healthy overseas interest. "We haven't seen the usual pre-auction setback," commented Mr John Shepperd, economist at SG Warburg Securities but there was plenty of speculation about how well-covered the auction will be.

■ NEWS of weak consumer confidence lifted longer-dated US Treasuries yesterday after rising gold prices had depressed sentiment in early trading.

By midday the benchmark 30-year government bond was up 5/32 at 101 13/32, yielding 6.976 per cent. At the short end of the market, the two-year note was up 1/32 at 99 25/32, to yield 4.146 per cent.

Prices struggled to make ground in the morning, undermined by a rise in gold prices, and a fall in the dollar, which was triggered by comments from a Treasury under-secretary about Japan's trade surplus being cut because of the strong yen.

The long end of the market rallied later in the session, however, after the Conference Board announced that its index of consumer confidence fell from 67.6 in April to 61.5 in May, its lowest point since October 1992.

Prices at the short end were not so robust, primarily because of the pressure of impending supply. Yesterday afternoon the Treasury was due to auction $15.75bn in two-year notes.

■ JAPANESE government bonds recouped their early losses to end the day higher, helped by the combination of a favourable auction result, a generous injection of funds in the money market by the Bank of Japan, and news reports that the central bank is worried that long-term interest rates are too high.

Yesterday's auction of new 10-year bonds went better than expected, dealers said. The new Y800bn bond issue – known as the No 159 JGB – has a coupon of 4.9 per cent and matures in June 1993. The bonds were sold at an average price of 100.06, corresponding to a yield of 4.891 per cent.

FT FIXED INTEREST INDICES

	May 25	May 24	May 21	May 20	May 19	Year ago	High *	Low *
Govt Secs (UK)	94.84	94.80	94.94	94.88	94.90	89.56	95.04	93.28
Fixed Interest	111.33	111.38	111.33	111.25	111.07	105.48	113.83	108.87

Basis 100: Government Securities 15/10/26; Fixed Interest 1928.
* for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 113.83 (9/3/93), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	May 24	May 21	May 20	May 19	May 18
Gilt Edged Bargains	87.3	85.1	91.7	100.0	125.0
5-Day average	97.8	98.6	101.1	100.5	100.2

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		9.500	08/03	113.5252	+0.987	7.57	7.64	7.49
BELGIUM		9.000	03/03	110.9000	+0.050	7.40	7.42	7.55
CANADA *		7.250	09/03	97.4500	-	7.62	7.73	7.33
DENMARK		8.000	05/03	103.5500	+0.250	7.48	7.52	7.59
FRANCE	BTAN	8.000	05/98	105.5101	-0.046	6.65	6.58	6.87
	OAT	8.500	04/03	109.1100	-0.010	7.18	7.11	7.18
GERMANY		6.75	04/03	99.4050	+0.560	6.83	6.81	6.55
ITALY		11.500	03/03	97.8100	-0.105	12.27†	12.32	12.82
JAPAN	No 119	4.800	06/99	100.9485	+0.048	4.60	4.57	4.11
	No 145	5.500	03/02	105.5484	+0.689	4.61	4.67	4.19
NETHERLANDS		7.000	02/03	102.0900	+0.320	6.69	6.64	6.58
SPAIN		10.300	06/02	95.9453	+0.002	11.02	11.13	11.54
UK GILTS		7.250	03/98	100-19	+2/32	7.10	7.18	7.06
		8.000	06/03	99-20	+2/32	8.05	8.12	7.98
		9.000	10/08	104-18	+4/32	8.46	8.53	8.35
US TREASURY *		6.250	02/03	99-04	-11/32	6.37	6.07	5.90
		7.125	02/23	101-23	+16/32	6.99	6.98	6.81
ECU (French Govt)		8.000	04/03	103.5500	+0.050	7.48	7.46	7.59

London closing, *denotes New York morning session. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

FFr40bn bond to finance recovery

By David Buchan in Paris

FRANCE'S prime minister, Mr Edouard Balladur, yesterday announced a record FFr40bn bond issue to finance his economic recovery programme.

He said the new state loan would primarily be aimed at individuals who could convert their bonds into shares of newly-privatised companies, or put them into tax-exempt long-term savings plans.

He gave few details except to say that the issue would carry a "market" interest rate, and that it only represented a "short-term" increase in government borrowing before the proceeds from privatisation started to roll in the autumn.

The bond issue will have a maturity of four years, Mr Edmund Althandéry, the economy minister, said last night. The coupon on two to five-year French Treasury notes is around 6.5 per cent.

To attract retail investors, buyers of the issue will be given a preference in buying shares in companies which the government plans to sell off. Later today, the government is to list the companies it plans to sell from this autumn.

The prime minister also said that purchasers of the special bond issue would get the same tax breaks which, he announced on May 10, would be offered to people switching their savings out of short-term money market funds into long-term savings plans.

The Balladur bond "will probably be treated as a special issue and managed as a special fund," Mr Potts said yesterday, like special issues in the past in France and like the bonds currently issued by the German Treuhand agency.

The finance ministry last night announced a new overall borrowing programme for 1993. It plans to issue FFr250bn worth of bonds and FFr230bn in two to five-year notes.

Mr Christopher Potts, an analyst with Banque Indosuez, said that the market had never coped with such an amount before, "but there is a lot of money stacked away in money market funds which could be tapped".

Emerging market investors avoid local currencies

By Tracy Corrigan

INTERNATIONAL institutional investment in emerging bond markets remains largely concentrated on Eurobond issues and Brady bonds, or other restructured bank loan vehicles, rather than on the local currency markets.

According to a survey of 30 institutional investors active in the emerging markets – by Kleiman International, a US-based consultancy – Mexico, considered the most mature of the markets by both debt and equity investors, is the only one to attract large-scale investment from overseas.

In other emerging markets, local currency markets remain dominated by domestic and expatriate investors, but all respondents expect local markets to grow quickly over the next 12 to 18 months.

Ninety per cent of the institutions surveyed have holdings in Mexican Cetes (Treasury bills) and/or adjustobonos (fixed real interest rate adjustable bonds) while only 24 per cent hold local currency bonds in any other market.

One-fifth invest in Argentina – in both peso and dollar-denominated instruments issued locally – while just over 10 per cent hold Venezuelan paper, mainly central bank zero-coupon bonds. Despite the highly developed capital markets in Chile, the investor base remains domestic.

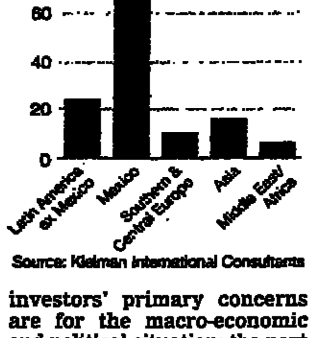
In Asia, only 16 per cent have holdings in local markets, mainly in Malysia, Thailand and the Philippines.

The survey showed that investors' primary concerns are for the macro-economic and political situation; the next big consideration is the currency, since a sharp devaluation can wipe out even high bond yields. A clear government exchange rate policy is necessary for fixed-income investments, according to those surveyed.

Investors also focus on credit risk, although risks across markets can be difficult to compare. The governments of Mexico and Colombia mandate local credit ratings, which are viewed as a useful guide.

Local currency corporate bonds with higher yields than government paper are starting to attract significant interest, the survey found. Although viewed as riskier than government paper, investors believe that companies will benefit more quickly than governments from economic reform.

Investment in emerging bond markets



Source: Kleiman International Consultants

Mixed reception for Abbey National

By Tracy Corrigan

ABBEY National launched a £500m five-year deal via UBS and SG Warburg, which met a mixed reception despite being quite attractively priced. Dealers said the five-year area of the yield curve was still suffering from oversupply.

INTERNATIONAL BONDS

Abbey National said the proceeds would be used partly to repay outstanding debt and partly to meet demand for mortgages, which has been rising for several months.

If demand for mortgages continues to grow, building societies may find that they, too, need to raise larger amounts in the wholesale markets due to the decline in deposits they have suffered.

Abbey's five-year offering yesterday was priced to yield 60 basis points more than the comparable gilt issue. Dealers said this represented floating-rate funding of about 15 basis points over the London interbank offered rate. Abbey recently launched a £650m 10-year deal and a $1bn 10-year offering.

At the long end of the market, Bristol & West Building Society launched a £75m issue of 10⅜ per cent subordinated bonds due 2018, arranged by Baring Brothers and Hoare Govett.

The deal, which will count towards lower tier two capital for the society, was priced to yield 190 basis points over the comparable gilt issue due 2017, and met strong demand from UK insurance companies. The long-end of the market is now the only area of the yield curve to offer double-digit coupons, which seem particularly attractive in the current low interest rate environment.

In the dollar bond market, Asian Development Bank's $500m issue of 10-year bonds via J.P. Morgan and Lehman Brothers also met a rather mixed reaction. The lead managers said that they had sold around $400m of the issue between them, but some dealers said that the issue looked rather aggressively priced at 23 basis points over the 10-year Treasury yield, given the fading performance of the US bond market.

The issue was designed to increase European distribution of ADB's bonds, to widen the investor base, since the ADB now taps the the yankee bond market and the dragon bond market separately.

The lead managers said that around 60 per cent of bonds were placed in Europe.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount* m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Asian Development Bank	500	6.375	99.28R	Jun.2003	0.325R	+23 (6¼%-03)	Lehman Bros./ JP Morgan
Nissan Intl. Finance(Neths.)‡	125	(a)	100R	Jun.2008	-	-	IBJ International
Gatic(b)	30	11	99.4R	Jun.1995	1.125R	+735(3⅞%-95)	Paribas Capital Markets
D-MARKS							
Conti-Gummi Finance(c)ф	250	7.5	120.25	Jul.2000	2.25	-	Deutsche Bank
STERLING							
Abbey Nat.Treasury Services	500	7.75	99.66R	Jun.1998	0.275R	+60 (7¼%-98)	UBS/ SG Warburg Secs.
Bristol and West BS	75	10.75	99.601R	Jun.2018	0.625R	+190(8¾%-17)	Baring/ Hoare Govett
CANADIAN DOLLARS							
De Nationale Investeringsbank	100	7.5	99.69R	Jul.1998	0.3R	+45 (6½%-98)	RBC Dominion Securities
ITALIAN LIRA							
LKB Baden-Württemberg Fin.	150bn	10.375	101.5	Jun.2000	1.875	-	Bca.Nazionale del Lavoro

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ★Private placement. фWith equity warrants. ‡Floating rate note. R: fixed re-offer price; fees are shown at the re-offer level. a) Coupon pays 6-month Libor + 0.375%. b) Quarterly coupon. Puttable in 9 months at 99¾% increasing by ⅛% quarterly. c) Denom.: DM5000 + 24 warrants. Each warrant is exercisable into 1 Continental share at DM199.

Teleglobe completes credit facility

TELEGLOBE, Canada's overseas telecommunications group, has completed a C$400m credit facility with a syndicate of financial institutions, Reuter reports from Montreal.

The five-year revolving credit facility replaces four existing banking facilities totalling about C$300m and will provide additional credits to fund investment, mostly in telecommunications.

Teleglobe also arranged a US$95m non-recourse financing with Toronto-Dominion Bank for the US$400m Cantat-3 transatlantic telecommunications cable project. The financing is guaranteed by BCE.

BCE will receive fees and a 25 per cent interest in the Teleglobe's unit holding its investment in Cantat-3.

Cantat-3 that will be brought into service in 1994.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on May 25

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield	OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABN 9⅛ 94	200	105⅜	105⅞	-⅛	4.34	Arbed 7½ 95 LFr	600	98¾	99¾	+¼	8.14
AlbertaProvince 9⅜ 95	800	110	110⅜		4.87	ECSC 7¼ 94 LFr	1000	100	101		7.73
Austria 8½ 00	400	112⅝	113	+⅛	6.13	World Bank 8 96 LFr	1000	101⅞	102⅜	-⅛	7.45
[illegible]						[illegible]					

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	33	20	25
Other Fixed Interest	1	2	12
Commercial, Industrial	313	246	841
Financial & Property	163	82	552
Oil & Gas	21	15	48
Plantations	2	1	5
Mines	33	51	55
Others	28	51	43
Totals	594	468	1,581

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc Date	1993 High	1993 Low	Stock	Closing Price	+or -	Net Div	Times Cov'd	Gross Yield	P/E Ratio
48	F.P.	-	55	55	Break for the Border	56		N-	-	-	6.7
[illegible]											

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc Date	1993 High	1993 Low	Stock	Closing Price p	+ or -
185	Nil	14/6	88pm	55pm	BTP	55pm	
245	Nil	2/7	68pm	58pm	British Airways	65pm	+3
420	Nil	2/7	80pm	64pm	Compass	68pm	
26	Nil	14/6	10½pm	7pm	Conrad Ritblat SG	10pm	
8	Nil	5/7	3½pm	1pm	Graystone	1½pm	
14	Nil	7/7	4pm	3pm	Jarvis	4pm	
255	Nil	7/7	38pm	27pm	Royal Insurance	31pm	-3
130	Nil	5/7	54pm	28pm	Saatchi & Saatchi	49pm	-3
171	Nil	30/6	13pm	10pm	United Drug	12pm	

b Figures based on prospectus estimates. N Figures based on IMR 'Headline Earnings' draft proposals. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ф Issued by way of rights. † Introduction. § Placing price. ※ Unlisted securities market. pm Price at a premium.

TRADITIONAL OPTIONS

- First Dealings May 17
- Last Dealings May 28
- Last Declarations August 12
- For settlement August 23

3-month call rate indications are shown in Saturday editions.

Calls in: Alvis, Butte Mining, Cannon St Invs., Cluff Res., Enterprise Comp., Fisons, Hartstone, Molynx, Oliver Res., Pilkington Wts., Prospect, Regalian, Savills, Tiphook and TR Prop. Inv. Trust. Puts & Calls: Cannon St. Inv. and Renison.

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
Allied-Lyons	500	42	55	63	8½	16	23
(*527)	550	14	28	36	32	40	47
[illegible]							

Option		Calls Aug	Calls Nov	Calls Feb	Puts Aug	Puts Nov	Puts Feb
BAT Inds	800	68	79	97½	18	39	47
(*837)	850	37½	52	69½	39½	64	71
[illegible]							
Brit Aero	300	45	57	68	17	28	35
(*325)	330	28	43	54	30	40	51

Option		Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
Glaxo	800	38	65	76	10	31	51
(*823)	850	12	39	52	36	57	80
[illegible]							

Option		Calls Jul	Calls Oct	Calls Feb	Puts Jul	Puts Oct	Puts Feb
Trafalgar	100	[illegible]					
(*109)	110	7½	11	15	11	12	16
Unilever	1000	54	78	91	18½	27	35½
(*1027)	1050	25	49	63½	42½	52	61
Grand Met	390	21½	30	38	15½	23½	33
(*392)	420	8	17½	26½	36	41½	49
Ladbroke	180	12	19	25	11	19	23
(*180)	200	5½	11	17	25	32	35
Utd Biscuits	390	34	45½	52½	14	22	30½
(*406)	420	22	30	37½	31½	37	46

Option		Calls Jul	Calls Oct	Calls Dec	Puts Jul	Puts Oct	Puts Dec
Fisons	160	22	27	29	8	15	18½
(*169)	180	10	19	21½	19	26½	29½

Option		Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
Abbey Natl	390	32	41	52	3	12	18
(*418)	420	10	23	34	10	26	31
Amstrad	30	3½	6	7½	2	3½	4½
(*32)	35	1½	3½	5½	5	6½	7½
Barclays	420	40	52	59	3	12	19
(*455)	460	11	27	38	14	30	36
Blue Circle	240	28	30	35	3½	10	18
(*258)	260	9	19	25	10	19	28
British Gas	280	13½	22½	26½	4	8½	18
(*288)	300	4	12½	16½	14½	19½	26½
Dixons	200	18	25	38	3½	13½	18
(*213)	220	6	16½	23½	13½	24½	29
Eurotunnel	380	21	42	57	13	33	42
(*400)	420	8	28	43	31	50	56

FT-SE INDEX (*2838)

	2650	2700	2750	2800	2850	2900	2950	3000
CALLS								
Jun	201	153	108	67	37	16	7	3
Jul	213	168	128	92	63	38	23	12
Aug	228	187	149	114	85	60	41	27
Sep	240	201	165	131	101	77	57	41
Dec †	-	245	-	178	-	122	-	82
PUTS								
Jun	5	7	11	24	43	77	119	168
Jul	11	17	25	40	62	92	126	169
Aug	20	28	39	54	76	103	137	175
Sep	28	38	49	66	88	113	145	181
Dec †	-	63	-	97	-	144	-	203

May 25 Total Contracts 33,794
Calls 21,365 Puts 12,429
FT-SE Index Calls 3,343 Puts 4,458
Euro FT-SE Calls 1,876 Puts 2,715
*Underlying security price. † Long dated expiry months.
Premiums shown are based on closing offer prices.

FT-ACTUARIES FIXED INTEREST INDICES

PRICE INDICES

		Tue May 25	Day's change %	Mon May 24	Accrued interest	xd adj. 1993 to date
	British Government					
1	Up to 5 years (25)	127.83	+0.06	127.76	2.19	4.09
2	5-15 years (23)	146.29	+0.04	146.23	2.39	5.22
3	Over 15 years (10)	156.57	-0.06	156.67	2.61	3.48
4	Irredeemables (6)	175.21	+0.12	175.00	0.97	6.12
5	All stocks (64)	142.99	+0.03	142.95	2.37	4.58
	Index-Linked					
6	Up to 5 years (2)	183.61	-0.02	183.65	0.72	1.92
7	Over 5 years (11)	173.38	-0.02	173.40	1.10	1.72
8	All stocks (13)	173.63	-0.02	173.67	1.05	1.75
9	Debs & Loans (66)	127.24	+0.04	127.19	1.95	4.79

AVERAGE GROSS REDEMPTION YIELDS

			Tue May 25	Mon May 24	Year ago (approx.)
	British Government				
1	Low	5 years	7.15	7.15	7.96
2	Coupons	15 years	8.07	8.06	8.83
3	(0%-7¾%)	20 years	8.29	8.28	8.83
4	Medium	5 years	7.38	7.39	9.08
5	Coupons	15 years	8.49	8.48	8.89
6	(8%-10¾%)	20 years	8.60	8.58	8.86
7	High	5 years	7.60	7.61	9.28
8	Coupons	15 years	8.73	8.73	9.02
9	(11%-)	20 years	8.76	8.76	8.97
10	Irredeemables(Flat Yield)		8.63	8.64	9.03
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	3.03	3.01	4.00
12	Inflation rate 5%	Over 5 yrs.	3.58	3.57	4.37
13	Inflation rate 10%	Up to 5 yrs.	2.26	2.24	3.27
14	Inflation rate 10%	Over 5 yrs.	3.39	3.38	4.18
15	Debs &	5 years	9.00	9.01	10.38
16	Loans	15 years	9.47	9.47	10.73
17		25 years	9.81	9.82	10.04

Move that signals end of a takeover chapter

By Richard Gourlay

THE DEPARTURE of Mr Brian McGowan as chief executive of Williams Holdings, the once acquisitive conglomerate, will cast nothing but gloom over any merger and acquisition department still hoping for a return of the 1980s mega-bid.

If an acknowledged takeover expert hangs up his slide rule and goes fishing, M and A may be entering a deeper depression than those who live off it had suspected.

Mr McGowan's departure – consistent though it was with his expressed wish to retire early to farm and fish – may be the full stop at the end of this particular takeover chapter, bankers and industrialists said yesterday. "These things go in phases," Mr McGowan said. "The glory days ended in 1973 and did not start again for 10 years. The market is up with the game and I do not see much that is undervalued."

Not only are companies better managed now, at the end of a recession, but much of the fat that developed in companies at the end of the 1980s bull-run has already been cut out.

Doubts about valuation are shared by Mr Greg Hutchings, chief executive of Tomkins, which until it bought Ranks Hovis McDougall last year had not made a UK acquisition since 1986. "I have been saying prices are outrageously expensive since 1987," Mr Hutchings said. "We have done only four deals in six years and we have looked at thousands."

Tomkins paid 14 times earnings for RHM – a price Mr Hutchings has yet to convince the market was not too high. What is clear, however, is that the price of other companies considered as potential takeover targets – notably Hillsdown and Glynwed – are even more highly rated now, having risen by over 50 per cent in the last six months.

Acquisitive companies also have to contend with the looming changes in the accounting environment which will reduce the scope for taking provisions against the balance sheet. "The reality of the short-term effect of acquisitions will be very much more obvious in the profit and loss account," says Mr Richard Rae, analyst at Hoare Govett.

Price and the Accounting Standards Board's changes may already have pushed some conglomerates towards asset purchases.

Hanson and BTR, the great exponents of the big takeover in the 1980s, seem to be less interested in immediate acquisitions. Hanson appears to have concentrated on acquiring assets – for example its interest in buying Canary Wharf.

While BTR is further down the path of running existing businesses – this week's A$270m (£121m) investment in bottling plants in China represents a significant asset purchase in a core operating division.

Nevertheless, there is no shortage of companies known to be seeking the big acquisition. Chartered Consolidated has made no secret it is looking to spend the sale proceeds from its stake in Johnson Matthey. And MB Caradon, though not strictly a conglomerate, is equally well armed after the sale of its stake in CMB.

Life may be easier for acquisitive companies fishing in smaller ponds, though they will not avoid the ASB's new rules. Wassall, the up and coming conglomerate rated on a prospective multiple of 22, is one group with a high rating and shareholder backing for a move.

Some merchant and investment banks have already anticipated a lull in takeover activity. But whether arranging bolt-on acquisitions, vendor placings, IPOs, rights issues and the odd restructuring is going to fill the gap left by takeovers remains to be seen.

When the life of Brian becomes less fun

Roland Rudd ponders Williams' strategy after the departure of its chief executive

MR Brian McGowan's decision to resign as chief executive of Williams Holdings raises some awkward questions for the group, not least about its future strategy.

Since Williams lost its bid for Racal Electronics at the end of 1991 it has made no secret of its view that hostile bids have become almost impossible to pull off.

But the industrial conglomerate has always held out the possibility of returning to the takeover trail when the opportunity presented itself.

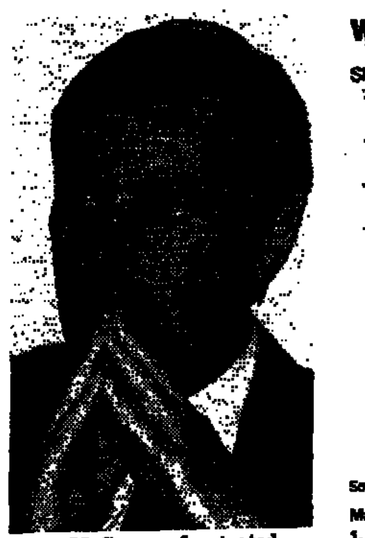
Mr McGowan believes that route has now been shut off to Williams for the foreseeable future. "Big mega bids are out for the time being" he said yesterday. "From an enjoyment point of view its less fun carrying on as you are than smelling the grease paint of a potential target."

While Mr McGowan had privately made clear to his colleagues that he would probably resign in two years time on his 50th birthday, his decision to go now was born out of a frustration that there are unlikely to be any big deals for the next few years.

Last year's negotiations with Thorn EMI brought this view to a head. Williams entered into negotiations with Thorn over buying its defence, lighting and security business for £300m.

When news of the talks leaked in the summer, Williams' share price immediately fell to less than £3, a price at which the management believed it was no longer possible to fund such an acquisition by way of a share offer. And since it did not have the cash to buy the businesses without significantly increasing borrowings, it just settled for Thorn's fire extinguisher business for £41m.

For Mr McGowan the failed Thorn negotiations were all too reminiscent of what happened



Brian McGowan: frustrated that there are unlikely to be any big deals in next few years

during its hostile bid for Racal. Williams' original £750m share offer fell by more than £100m as the group's shares sliped from 360p to a low of 287p during the battle.

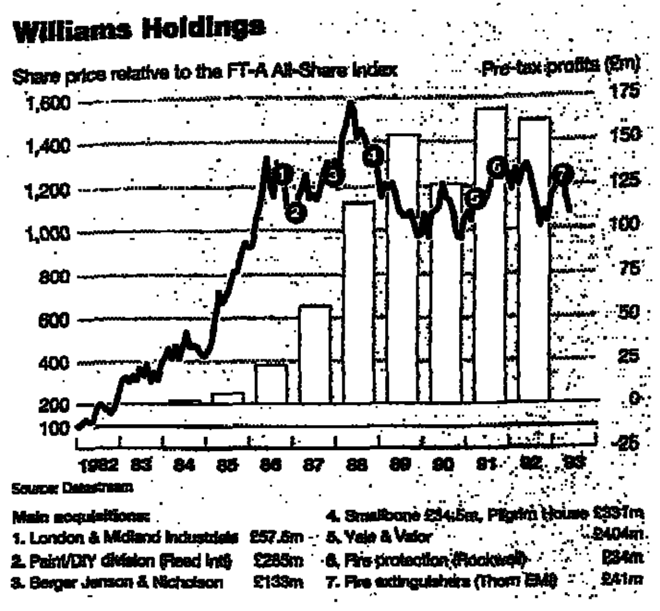
After losing Racal, its third failed hostile bid, and no longer able to finance medium-sized deals with its shares, Mr McGowan said the future strategy would on looking for small infill acquisitions.

This was in marked contrast to its earlier strategy when it accumulated such famous businesses as Yale locks, Rawlplug, Polycell and Valor Heating.

"That type of growth is no longer possible" said Mr McGowan ruefully. "The fat targets of the eighties are gone and the institutions are no longer so willing to back big acquisitions".

Mr McGowan still believes that UK managers may get "weak and sloppy" again in the future, making big acquisitions easier, but he is not prepared to wait for those days to come back.

His long-time partner Mr Nigel Rudd, chairman, who founded the group with Mr McGowan in 1982, does not contradict his chief executive. For the next 18 months he says Williams will be a conventional, if somewhat boring, conglomerate to meet the needs of the nineties. Williams will be concentrating on organic growth and small bolt-on acquisitions.



With Mr Roger Carr, managing director, responsible for the day-to-day running of the businesses, Mr Rudd says there was simply not enough work to keep three senior executive directors busy. Thus no-one will replace Mr Carr when he takes over from Mr McGowan as chief executive at the beginning of next year.

Mr Rudd believes he has the depth of management in place to turn round an underperforming company. "But I am not prepared to put the group's resources behind a deal which can depend on the decision of a single fund manager", he said.

Furthermore, the group's decision, announced at yesterday's annual meeting, to take reorganisation costs of acquired companies through the profit and loss account could make acquisitions still less attractive for Williams.

All of these factors have been underlined by Mr McGowan's decision to retire. But Mr Rudd argues that many other conglomerates, such as BTR and Hanson, are in the same position.

Faced with a problem of where its next acquisition was going to come from, BTR recently surprised analysts by signing joint ventures with two Chinese provinces which will entail an investment of more than £100m.

Many conglomerate analysts yesterday seized on the Chinese deal as evidence that BTR attaches as much importance, if not more, to organic growth and agreed deals as it does to big hostile bids.

A similar pattern has emerged at Hanson. The new management, led by Mr Derek Bonham, chief executive, and Mr David Clarke, chief executive of Hanson Industries, the group's US arm, recently underlined their belief that organic growth and small bolt-on acquisitions provide the greatest opportunity for growth.

Although BTR's message has generally been well received in the market, partly because it has stressed the need for managing companies for some time, Hanson's change of heart about making big acquisitions has led to a number of critical reports by stockbrokers.

Indeed, Williams' two brokers, Warburg Securities and Barclays de Zoete Wedd, recently published a sell and hold note respectively on Hanson, questioning whether the group could sustain its growth without another big acquisition.

Williams' advisers argue that the company has nothing to fear from Hanson's experience because it has always modelled itself more on the lines of BTR. They took heart that the group's shares only fell 10p yesterday to 310p. One of its financial advisers said: "Williams has been stressing its ability to run businesses for some time. Mr McGowan's resignation underlines the change in the group's strategy from an acquisitive conglomerate to a more prosaic company managing industrial businesses."

This view is echoed by Mr David McErlain, a close business friend of Mr Rudd. Mr McErlain, former chairman of Anglo United, which took over Coalite, the smokeless fuel business, in a leverage bid in 1988, believes Mr McGowan's departure will give Mr Rudd a "new lease of life" to focus on his businesses, while developing a new partnership with Mr Carr.

But even Mr Rudd cannot disguise his hope that the glory days of the eighties might return again, allowing him to make the type of takeovers that within 10 years took Williams from a shell company into the FT-SE 100 share index.

Community care spending helps Tunstall advance to £3.17m

By Catherine Milton

TUNSTALL GROUP lifted first half pre-tax profits from £2.55m to £3.17m, thanks partly to higher spending by local councils under the government's community care policy.

The shares surged 34p on the announcement to close at 447p.

The group, which supplies emergency communication and security systems, improved turnover to £22.2m (£19.6m) in the six months to end-March, which coincides with the local authority year-end.

Tunstall Telecom achieved £750,000 in sales of communications and management control centres for community care administrators. It also won "major orders" worth £800,000 from councils to cover requirements for emergency communications devices for community care patients now living outside hospitals.

More than 60 per cent of sales went to the UK public sector and Tunstall said it expected to double sales of hospital communication and security products in each of the next few years, from a low starting point.

Overseas sales improved £2.3m to some 22 per cent of the group's total turnover, against 20 per cent at the September year-end. Tunstall ComSystem, a German hospital communications subsidiary, had been "temporarily slowed" by the downturn in Germany, but its market was under-developed. The group aims to establish a European network of associated companies and subsidiaries.

Tunstall Electrics contributed £2m against £400,000 for the last full year, stemming from contract manufacturing, although it continued to fulfil its role as a supplier to group companies. One analyst pointed out that 60 per cent of that turnover was to one company, Pace, the consumer electronics maker.

Net interest payments were £148,000 (£89,000). Tunstall had £5.2m cash at March 31, up £900,000 on the year-end.

Earnings per share moved up to 13.3p (10.2p) and the interim dividend is lifted from 2.25p to 2.5p.

Fairline back to interim surplus with turnround to £0.16m

By Catherine Milton

FAIRLINE Boats, the luxury powerboat maker, yesterday announced a return to pre-tax profits of £161,000 at the halfway stage from losses of £613,000 a year earlier, benefiting from the devaluation of sterling.

The shares closed down 42p at 390p reversing a 44p rise on Monday following favourable press comment in the weekend press.

Mr Sam Newington, chairman, said the figures reflected both lower development costs and the publicity value of devaluation among overseas buyers: "When sterling devalues it's news. Our customers know our boats will be cheaper."

He expressed concern, though, about Fairline's main European markets. "We expect to see some recovery in UK sales although it will be difficult to maintain export momentum to other European countries."

Turnover, of which about 85 per cent was overseas with Germany as the main market, rose to £15.2m (£12.3m) in the six months to end-March. Direct exports, some 70 per cent of total turnover, were up by 45 per cent.

The UK distributor also sells to overseas customers. Home sales were down 15 per cent.

Fairline said the European Community's January 1 extension of VAT on its exports had not yet affected the market. It feared the proposal move to claim some VAT on boats sold up to eight years ago, could depress prices in the secondhand market, which might have a knock-on effect on upgrade trade.

The company had about £1.2m in net cash and trade debtors of £2.4m in March. It generated between £300,000 and £500,000 cash in the half year and has now paid off almost all of a low interest £1.65m EC loan, leaving negligible borrowings.

In January it launched the Targa 38 and plans a 28-footer next January. The company said it hoped to sell the smaller boats on the back of the established brand name of the bigger boats it has developed.

The board declared a maintained interim dividend of 3.575p and earnings per share were 3p against losses of 11.8p.

Carpetright shows sharp rise to £7.8m for year

By Richard Gourlay

CARPETRIGHT, the carpet company to be floated next month by Sir Philip Harris, made profits of £7.81m in the year to May 1 this year.

The pre-tax result, up from £2.81m last time, was struck on sales 47 per cent higher at £78.6m (£53.4m). Operating profits jumped to £7.47m (£2.68m) and operating margins were up from 5 per cent to 9.5 per cent.

The figures were revealed yesterday as Carpetright issued it pathfinder prospectus ahead of a pricing decision on June 8.

Some 35 per cent of the shares are to be made available to the public. Sir Philip and companies controlled by him will end up with approximately 20 per cent of the company and his family will have a further 10 per cent.

Sir Philip confirmed that the flotation would be used to repay preference share holders. He said the cash generative company would not make acqsuisitions.

It would, however, consider buying small groups of carpet shops in order to help it reach its target of increasing the number of outlets from 116 to 200 in the next three years.

County Natwest is sponsoring and underwriting the float while SG Warburg is broker.

PhoneLink checks into USM

By Alan Cane

THE UNLISTED Securities Market yesterday gained its first recruit since its reprieve from closure when PhoneLink, a Birkenhead-based computing services company, placed 8.9m shares at 155p a share, valuing it at £55m.

Now three years old, PhoneLink has developed a novel technique for extracting information from commercial computer databases quickly and economically. Mr John Lyon, commercial director, said the decision to go to the USM had been made because the company could not yet meet the financial criteria for a listing.

The placing, by Allied Provincial, of about 25 per cent of the equity raised £9.9m net of expenses. The shares were placed with a group of institutions each of which now holds less than 3 per cent of the total. Mr Trevor Burke, PhoneLink's founder and chief executive and his wife Heather, client services director, will each receive £1.3m as a result of the flotation. Mr Burke retains a 52.5 per cent interest in the company.

PhoneLink intends to use the funds raised to improve the company's Birkenhead site and to buy a second production site. It estimates this will cost £5.1m. Some £600,000 will be spent on developing existing business and the rest will be used to promote and market Tel-Me, the company's flagship product which will be launched in the first quarter of 1994. In the year to March 31 PhoneLink's turnover amounted to £923,000. Pre-tax profit was £31,000 after writing off development expenditure of £414,000.

PhoneLink's revenues to date come from Datacare, a service based on its information retrieval software used for the automated bulk retrieval of telephone numbers by banks and utilities among others.

A second application will be BT Teledirectory which will enable BT customers to obtain telephone numbers from a personal computer attached to PhoneLink's system.

Dealing in the shares begin on June 1.

Brake Bros makes biggest buy

By Peter Pearse

BRAKE BROS, the supplier of frozen and chilled foods to the catering trade, has acquired Country Choice Foods (Group), a supplier of frozen bakery products, for up to £14m, its biggest acquisition to date.

The initial consideration is £10m to be met by the allotment of 2.06m new shares. Further consideration, up to £4m, depends on CCF's trading results for the year to February 28. It will be satisfied either by the issue of five-year loan notes or the allotment of up to 1m shares, or by a combination of both.

Mr Frank Brake, managing director, said although CCF related to Brake's existing businesses, it was "another niche" for Brake which is especially strong in seafood, fish, prepared meats and poultry products. It will continue as a stand-alone operation, he said. There would be no rationalisation or closures as a result of the acquisition, though there would be synergies on the buying side.

CCF is based in Orpington, Kent, while Brake is just along the motorway at Ashford.

CCF operates from eight depots across the UK, made pre-tax profits of £1.55m in the year to February 1993 on turnover of £40m, and at its year-end had net assets of £1.39m. It is headed by Mr Ken Manley as chairman and his brother Stephen as managing director. Both will remain at CCF, as will its other directors. Mr Ken Manley will become a non-executive director of Brake.

Headline shares suspended

By Raymond Snoddy

MR TIM Hely Hutchinson, founder of Headline, the publishing group, is on the takeover trail.

Shares of Headline, founded in 1986, were yesterday suspended at 290p at the company's request. A statement said that Headline had reached an advanced stage in talks which were expected to lead to a substantial acquisition.

An announcement is expected soon and dealing in the shares of Headline, which is capitalised at more than £34m, will recommence after details of the planned acquisition have been sent to shareholders.

Mr Hely Hutchinson was not available for comment but unconfirmed rumours in the publishing industry suggested that Hodder and Stoughton was the likely target.

Mr Philip Attenborough, Hodder's chief executive, was not available yesterday, although a company board meeting is scheduled for today.

New scrip enhancement from RTZ

By Angus Foster

RTZ Corporation, the mining group, yesterday became the first company to announce that it had arranged a second enhanced scrip dividend, which will be offered on the company's interim dividend for this year.

The company, which had already used the enhanced scrip scheme for its final dividend for last year, is also bringing forward payment of the interim from December to August.

To take full benefit of the scheme, for this year only, the size of the interim and final dividends will be reversed.

RTZ yesterday declared an interim of 13.5p with an enhanced scrip alternative of 20.25p. BZW, which designed the enhanced scrip scheme, will make a separate cash offer at 98 per cent of the enhanced scrip's value, equal to 19.85p.

In previous cases, BZW made a 95 per cent cash offer, but then faced competition from Swiss Bank Corporation, which offered 98 per cent on schemes arranged for BAT, Redland and BICC.

Assuming a 90 per cent take up of the issue, as achieved last time, RTZ will eliminate £33m of unrelieved advance corporation tax and will have substantially cleared its unrelieved ACT problem.

NEWS DIGEST

Merger notice for ICI sale

A MERGER notice has been issued by the director general of fair trading in respect of the proposed acquisition of Imperial Chemical Industries' dry ice business, which operates under the Drikold name, by Norsk Hydro.

The period for consideration of the notice expires on June 22 and representations about the purchase may be made by June 8.

East West Oil raises holding in Aminex

East West Oil, a private company controlled by Russian shareholders, has increased its stake in Aminex, the Dublin-based oil explorer, from 22.5 per cent to 25.2 per cent.

The announcement came as Aminex revealed that the deal with Svenska Petroleum, the Swedish company, to assign a 13 per cent interest in a Tunisian field in exchange for a 4.5 per cent per cent stake, had been approved by the Tunis government.

Aminex shares closed yesterday 2¾p higher at 17¾p.

Fleming European improvement

At March 31 1993 net asset value of the Fleming European Fledgeling Investment Trust rose to 77.7p, compared with 74.4p a year earlier.

The trust invests in continental European smaller companies. While the outlook there remained poor until next year, the directors said there were some signs of improving business within companies in the portfolio.

In the 1992-93 year gross revenue came to £874,000 (£622,000) and earnings per share were 0.44p (0.09p). There is a return to the dividend list with a payment of 0.15p.

MTM meeting backs sale and refinancing

The reorganisation plans of MTM, the fine chemical company, advanced a further stage yesterday when an extraordinary meeting agreed the details including the sale of most of the company's assets to BTP, its fellow chemical company.

MTM is now seeking to grow the remaining UK agrochemicals business through improvements in production and marketing. It is also looking to invest in technology-based industries.

BTP is paying £100m, financed by a rights issue. Following the egm decision it sent out allotment letters for the shares, dealings in which are expected to start today.

Of the proceeds, MTM will use £90m to repay bank debt and retain the balance. The outstanding bank debt will be converted into equity giving them 29.9 per cent of the reorganised company.

Cussins reservations at satisfactory level

Mr Peter Cussins, chairman of the Cussins Property Group, told the annual meeting that the rate of visitors to the company's sites had increased over the past two weeks and that reservations had returned to satisfactory levels.

Net sales continued to hold at roughly 30 per cent above the comparable period of last year.

At an extraordinary meeting following the AGM, a special resolution for a reduction in the share premium account was approved.

Rand Mines shares

Rand Mines Properties is ending its listing on the London Stock Exchange with effect from May 31, but they may be dealt with under Rule 535.4. All the shares will continue to be listed and traded on the Johannesburg SE.

IN BRIEF

MEYER International received acceptances for 23.26m ordinary shares, 93.7 per cent of the shares offered under a 1-for-4 rights issue at 377p per share.

OLIVER RESOURCES has announced that under the offer for Kirkland, including the Kirkland shares already owned by Oliver, a total of 95.16 per cent of the Kirkland shares in issue is now committed to Oliver.

SONY ELECTRONIC Publishing has acquired the Liverpool-based computer and video game and CD-ROM products company, Psygnosis. The consideration was not revealed.

Joint venture to have £400,000 initial share capital

GA in US link to form telephone-based broker

By Richard Lapper

GENERAL ACCIDENT, the Perth-based insurer, is linking up with Rollins Hudig Hall, the US insurance broker, to form a new telephone-based insurance broking company, underlining increasing competition in the motor and home insurance market.

SelectDirect, which will open for business in July, is seen as a response to the rapid growth of "direct writers", which sell personal lines insurance by a combination of mass media advertising and telephone sales.

It will resemble telephone-based brokers such as AA Insurance and Swinton Insurance, the Sun Alliance subsidiary, but the new company will not have a branch structure or high street presence and aims to achieve a much lower cost base than these rivals as a result.

Mr Peter Friend of RHH, who is to be managing director, says that SelectDirect will operate in much the same way as direct writers but will offer customers a choice of insurer. The company will make maximum use of advanced computer and telecommunications technology.

"The creation of SelectDirect is further evidence of our determination to keep fully abreast of developments in our industry. 'Personal lines' has been an area of great change in recent years," Mr Friend said.

Direct writers such as Direct Line, Churchill and The Insurance Service have steadily increased their share of the motor insurance market in the past three years. Direct Line insures more than 900,000 motorists and expects to be the biggest motor insurance company in the country by the end of the year.

GA's own direct writing subsidiary, GA 1-2-1, has also made inroads into the motor insurance market since its launch in 1989.

Mr Bob Newton, assistant general manager of GA (UK), said: "Combining our tele-marketing skills and experience with the insurance broking skills of RHH is a natural and powerful next step."

RHH and GA will each have a 50 per cent share in the new company, which is understood to have an initial share capital of £400,000.

It will be based in East Kilbride in Scotland and create about 60 new jobs by the end of its first year.

RHH intends to place all its personal lines business in the company, while GA is expected to underwrite only a portion of the business broked by the new company.

The venture hopes to obtain some £5m in brokerage commissions within three years.

Regional advertising helps Metro Radio rise

By Chris Tighe

METRO RADIO Group, the USM-quoted local radio station operator, reported pre-tax profits up 19 per cent at £797,000 for the half year to March 31, against £670,000.

Local and regional advertising revenue was up 21 per cent but was offset by a 10 per cent fall in national advertising revenue. Overall, advertising revenue rose 11 per cent to £6.6m (£5.95m).

Mr John Josephs, managing director, blamed the national fall partly on the receivership of Crown Communications, parent of Independent Radio Sales, Metro's national sales agency. He hoped the sale of IRS, now under negotiation, would resolve this problem.

Misplaced gloom among London-based clients about economic prospects outside the south east was also a factor, he said.

Turnover rose by 15 per cent to £8m (£6.96m). Earnings per share advanced 19 per cent to 3.13p (2.64p). The interim dividend is being maintained at 1.5p.

He confirmed the Tyneside-based group was considering applying for the newly advertised Scottish regional licence.

Results reflect growth in average orders and doorstep distributors

Betterware almost doubled to £13.7m

By Paul Taylor

BETTERWARE, the door-to-door household goods distributor whose army of 10,000 self-employed sales people visit over 1m homes each week, has reported a 94 per cent jump in full year profits.

For the year ended February 27 1993 the pre-tax balance rose from £7.04m to £13.7m; that included £624,000 exceptional gain compared with £322,000 charge. Turnover increased 35 per cent to £56.3m (£41.7m).

Cash flow was again strongly positive boosting year-end net cash balances to £13.7m (£4.5m). Some of this will be used to cover the remaining cost of the group's new £9.5m UK distribution centre which is on target for completion by the end of this year.

Mr Andrew Cohen, chief executive, said sales in the core home shopping business, which employs just 170 people, rose by 52 per cent to £44.7m. The growth reflected a rise in the average customer order from £7 to £8 and an increase in the number of doorstep distributors from 7,000 to 10,000.

The current catalogue contains 450 items ranging from can-openers to drain cleaner "priced competitively" with high street hardware stores.

Betterware launched a door-to-door sales operation in France 20 months ago with a scaled down catalogue of 250 items, and was profitable and ahead of target in its first year after start-up costs of £250,000; sales reached £750,000. Orders are placed by one in four French homes visited compared to one in five UK and the average order is worth £13.

Mr Cohen said the early results from the French operations confirmed the potential for expanding overseas. The group will start up in Spain this year and has plans to open up in another unidentified European country in the following 12 months.

Earnings per share grew by 71 per cent to 8.4p (4.9p) and a final dividend of 1.5p lifts the total to 2p after the scrip issue (equivalent 1.22p).

Andrew Cohen: sees further expansion abroad this year

● COMMENT

Betterware's business may not be glamorous, but Andrew Cohen has certainly proved that his direct sales formula can continue to deliver profit gains even during a recession, provided overheads are kept to a bare minimum and volumes still rise. Higher volumes generated by more local distributors, shorter catalogue cycles and overseas expansion translate into greater purchasing power and continuing healthy margins. Despite this there are no real direct competitors on the horizon and there are significant barriers to entry. Betterware has the door-to-door sales business down to a fine art. Pre-tax profits of around £17m are likely this year and earnings per share of about 11p imply a lofty prospective p/e of 24 – the share price has risen more than five-fold in the last two years and could still go higher.

Exceptionals help Readicut jump 63% to top £19m

By Angus Foster

READICUT International, the household textile, carpeting and yarn company, yesterday reported increased profits, but said UK economic recovery remained "patchy".

Pre-tax profits increased by 63 per cent to £19.2m in the year to March 31, but were distorted by one-off exceptional items. Excluding exceptionals from one-off disposals and closures, profits increased by 11 per cent from £13.5m to £15m.

Mr Clive Shaw, managing director, said the company's main UK markets were "up and down" and predicted slow recovery in the US. "The rest of Europe is still going down," he said.

Turnover increased by 7 per cent to £234.8m, of which £10m stemmed from exchange rate gains. The company is considering switching from year end to average exchange rates.

Operating profits increased by 7.2 per cent to £17.3m, reflecting continued cost cutting. There were redundancy costs of £750,000 as staff numbers fell by 84 to 3,800.

Capital expenditure increased more than £4m to £11.8m against depreciation of £8.6m. Spending is expected to increase again this year to £14.8m.

The company sold Russells Rubber in February, leading to an exceptional profit of £4.2m, and a cash benefit of £8.5m. This reduced net borrowings from £11.5m to £1.8m, while gearing fell from 19 per cent to 2 per cent. Interest costs fell to £2.3m (£2.67m) helped by lower interest rates.

Earnings per share, helped by a lower tax rate, increased 84 per cent to 7.5p (4.07p). The company proposed a maintained final dividend of 2.81p, to make an unchanged total of 3.44p.

● COMMENT

Even without the flattering effects of FRS 3, these were very good results from Readicut. Taking out the exceptionals, and remembering the prior year was helped by a one off insurance payment, the company managed to increase profits despite recession and nearly £1m in extra net costs. These included the redundancy payments and start up costs for a new Belgium factory, making car boot carpet for the European Ford Mondeo, which is likely to make a sizeable contribution this year. Aside from the results, Readicut has a strong balance sheet and has maintained capital spending throughout the recession. All of which is wonderful news for shareholders who bought last summer, when the shares hit 69p. With the price now up to 98p, on more than 16 times next year's forecast earnings, the shares are well valued.

Shires assets up 13%

Shires Investment reported a 13 per cent increase to 250.35p in fully diluted net assets per share at end-March 1993, compared with 221.4p a year earlier.

After-tax revenue dropped from a restated £4.52m to £4.4m in the year and earnings per share were 17.48p (19.54p). The final dividend is an unchanged 5.9p for a total of 18.4p (same) – a total not less than 16.8p is forecast for the current year.

Cosalt tumbles into the red

Cosalt saw a £1m downturn to a pre-tax loss of £220,000 for the half year ended February 28 1993, and is cutting the interim dividend from 4.25p to 2.125p.

Mr Edward Brian, chairman and chief executive, said there were signs of improving business and expected trading in the second half "to be much improved."

Profit for the 1991-92 year was £1.88m.

The group's interests cover fibres, workwear, holiday homes, and safety and protection. Turnover fell 18 per cent to £34.3m, and the operating profit of £309,000 (£1.31m) was offset by interest charges of £529,000 (£527,000).

Losses per share worked through at 1.64p (earnings 4.52p).

Bellwinch makes £6.5m placing to fund growth

BELLWINCH, the Wembley-based builder, is calling for £6.5m via a fully underwritten placing and open offer of 27.4m new ordinary shares.

The money raised will be used to replenish the group's land bank and to fund its working capital requirements in developing new sites with the object of "progressively increasing the level of annual sales."

The shares are being placed with Credit Lyonnais Laing and are subject to a clawback by qualifying shareholders on a 5-for-3 basis at 25p per share.

Credit Lyonnais Laing does not intend to apply for its entitlement under the open offer and is placing its existing holding of 494,262 ordinary shares, acquired in December 1991 at the time of the group's financial reconstruction, with an institutional investor at 25p each.

On current trading, Bellwinch directors said that since the middle of January the market in house sales had improved, benefiting from low mortgage rates and a ratio of house prices to earnings lower than had been experienced since the 1960s.

They believed that public confidence had begun to increase and that stability would return to the market place for housing during 1993, with some small increases in selling prices during the second half.

Smaller Cos Trust placing

By Philip Coggan, Personal Finance Editor

Smaller Companies Investment Trust, which is managed by Abtrust Fund Managers, is attempting to raise £21.25m via a placing with clawback.

UBS is placing 3.6m units at 590p each with existing investors able to clawback on the basis of one unit for every five ordinary shares. The units will be converted into ordinary shares and warrants at the undiluted net asset value on June 16.

The trust believes the time is right to increase its investments in small companies.

It has also declared an unchanged interim dividend of 1.2p per share for the six months to June 30.

Taskforces that face a competitive challenge

Lucas Industries lifts a page out of Japan's methodology of manufacture. **Andrew Bolger** reports

AT LEAST some employees of Lucas Industries have allowed themselves a wry smile over suggestions that the Birmingham-based engineering group is a prime takeover target for predators such as BTR, the acquisitive industrial conglomerate.

For the 400 people working in Lucas's engineering and systems business have been involved in teaching best manufacturing practice to a host of the UK's blue-chip companies – including BTR. Lucas got into this area in the early 1980s, when the shock of recording its first losses forced the group to look afresh at how it made components for the motor and aerospace industries.

From a handful of people looking at improving Lucas's performance, the engineering and systems business has developed into a separate company within the group, with annual sales of £23m and customers which include Rolls-Royce, British Aerospace and Unilever.

Mr David Friday, director and general manager of Lucas Engineering and Systems, said his company had decided in the early 1980s that it needed to do something fundamental to study markets outside the UK and Europe – particularly Japan.

He said: "We didn't understand then that the Japanese were concentrated on the methodology of manufacturing – we were spending just as much. There was a lot of hoohah about robots – by and large, it was much simpler."

Lucas now preaches what has become the accepted wisdom on how to achieve international competitiveness, often based on the performance of leading Japanese competitors, which doubles the sales per employee achieved in the west.

Just-in-time manufacturing can treble stock turnover. Product costs are estimated to be 30 per cent lower and manufacturing lead times 50 per cent shorter as a result of concurrent engineering techniques and better management structures. The emphasis of Japanese businesses on quality means that their defects are measured in parts per million, rather than percentage figures as in the west.

Central to Lucas's approach is challenging the western approach which divides companies into separate functions – such as sales, distribution and production. Instead, the Lucas approach identifies logical processes and units, which can eliminate duplication and allows each to focus on optimum performance.

Traditionally in the UK, products are first designed in isolation and then designed for manufacture, resulting in production problems, frequent redesign, introduction delays and higher manufacturing costs. Concurrent engineering combines product and manufacturing design in one integrated process, with the product designed from the start for the simplest, least expensive, production process.

David Friday: an intensely practical approach

Lucas still regularly sends engineering systems experts to Japan on study tours. Mr Friday said, resignedly: "The Japanese are very free and open about the process. They've learned that no matter what they tell us, we don't do it. Brits coming back fixated on quality circles, uniforms and PE – the trouble is, it's all the other things as well."

Despite this strong theoretical underpinning, Mr Friday's approach is intensely practical: "Our fundamental principle is to encourage businesses so that they have the capability themselves. I don't even like the term 'consultants': we are implementers, doers – we're not in the business of writing big reports and then leaving businesses with them. We don't write reports, we work."

Lucas reckons it takes between two and three years to complete what it describes as a "step-change" in a company's operating methods, although some achieve it in less. Some external clients bring Lucas in to do just the initial overall plan.

The primary focus is on establishing taskforces – normally one or two, but some companies have had as many as 18. They are full-time, multi-disciplinary teams of six people – only one a Lucas consultant, who will not be the leader. Taskforce membership should be a real cross-section – perhaps a machinist, foreman, engineer, quality assessment expert and a production engineer, including trade unionists.

Mr Friday tells senior managers: "These need to be your best people – give us your worst and you'll get the sort of business you have now." Combined with a widespread educational programme, the taskforces must set clear and achievable targets – such as on stock turn, lead times. They hold weekly reviews of progress and monthly reviews with the general manager.

Despite having completed more than 600 projects, Lucas claims it has never had any group of people who have blocked a restructuring. Mr Friday said: "I can show you men who have resigned as shop stewards because they saw the logic of what we had to do. "You can't cloak it if a company's workforce needs to shrink. It just means you have to set it up properly – we're not prepared to work for a client for more than one or two weeks if they're not prepared to tell employees what is going on."

Inevitably, private-sector clients of Lucas are reluctant to talk about what benefits they received. However, Parcelforce, the Post Office subsidiary, called Lucas in to help co-ordinate an efficiency programme which yielded savings of £80m – some £10m above target.

Mr Friday said that Lucas also does consultancy work for banks and the NHS – indeed any organisation which can benefit from a "process" approach. About 25 per cent of the business's work now comes from outside Lucas, and the proportion is increasing steadily.

The Lucas consultants, based at Shirley, near Birmingham, acknowledge that it is not always easy to go into companies at a time when their own parent is the City's favourite takeover candidate, following a collapse in profits and a botched boardroom succession.

Mr Friday said that despite these recent troubles, the Lucas name was still widely respected in manufacturing circles: "People know that when we talk about how to make things, we can actually do it."

Perhaps ominously for Lucas, Hawker Siddeley was another name famous in the annals of British engineering. BTR joined Lucas's client list after being impressed with the work which the Lucas consultants were doing at Hawker, which BTR swallowed in a £1.5bn hostile takeover at the end of 1991.

NEWS IN BRIEF

ABERDEEN Petroleum: Pittencrieff has declared its offer unconditional with acceptances of 58.9 per cent. The offer is extended.

ALIDA HOLDINGS, a wholly owned subsidiary of British Polythene Industries, reported pre-tax profits of £1.17m (£1.23m) for 1992. Turnover was £41.8m (£41.7m) and earnings per share 6.65p (5.55p).

BALTIC has completed the sale of Capital Asset Finance, its subsidiary engaged in the leasing of Fork Lift trucks, at net asset value (£242,000 at December 31). Proceeds have resulted in a repayment of inter-company loans of about £20m.

BEXBUILD DEVELOPMENTS: Acceptances have been received in respect of more than 90 per cent of the capital of Bexbuild by Bondgrowth, the offerer, which is to compulsorily acquire the remainder.

BRIDON is to restructure its European wire and wire rope activities. As part of the restructuring, the Bridon Fishing Ropery in Beverley will be closed with the loss of 51 jobs.

CAPITAL INDUSTRIES' subsidiary, CW Asset Management, is to manage a new investment trust, Eaglet, to be launched next month.

COWIE said there was a 78.9 per cent take-up of the open offer to shareholders to apply for up to 13.97m new ordinary shares. A total of 1.01m ordinary shares were placed firm. The 2.73m subject to recall but not taken up have been placed with institutional clients by De Zoete & Bevan.

DAKS SIMPSON, a subsidiary of Sankyo Seiko, reported pre-tax profits of £1.4m on turnover of £65.5m for the year to January 31 1993. The year end has been changed and the figures compare with losses of £525,000 on sales of £33.3m in the six months to end-January 1992.

EASTERN INTERNATIONAL Investment Trust announced that all the outstanding and issued 9.5 per cent debenture stock 1992/97 of the company will be redeemed at par on August 31 1993.

KINGSTON OIL & Gas is to sell Kingston Oil Corporation for \$4.15m (£2.69m) in cash to KOC Acquisition Corpn.

LAMONT HOLDINGS' subsidiary, ICS, has disposed of its business and certain assets to a wholly owned subsidiary of Unicomp Holdings (UK) for £2.8m cash.

LONDON FINANCE & Investment Group advised shareholders to take no action in response to a document from New Burlington Street Investments until that had been clarified. The board said that the Takeover Panel had requested New Burlington to withdraw its document and to return any share certificates it may have been sent.

MCKECHNIE offer for Savage Group has been declared unconditional. Acceptances totalled 72.04 per cent of the ordinary and 32.41 per cent of the preference. Offers remain open; cash alternative closed.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Argyll ......fin	7.35	Aug 24	6.55	10.9	9.75
Betterware ......fin	1.5	July 19	0.88*	2	1.22*
Cosalt ......int	2.125	Aug 27	4.25	-	10.75
Fairline Boats ......int	3.575	July 22	3.575	-	10.5
Fleming Fledge ......fin	0.15	July 19	nil	0.15	nil
Metro Radio § ......int	1.5	July 9	1.5	-	5
Readicut ......fin	2.81	Aug 14	2.81	3.44	3.44
RTZ ......int	13.5	Aug 6	6	-	19.5
Shires Invest ......fin	5.9	July 30	5.9	18.4	18.4
Smaller Cos Inv ......int	1.2	-	1.2	-	2.8
Thorn EMI ......fin	23	Oct 1	21.5	32	30.1
Tunstall ......int	2.5	July 23	2.25	-	6

Dividends shown pence per share net except where otherwise stated. *Adjusted for scrip issue. †On increased capital. §USM stock.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Capital Radio, Countryside Properties, Perpetual, Wheeso.

Finals- Casket, Courtaulds, European Colour, Monks Inv. Trust, North West Water, Plysu, Rolfe & Nolan, Wernford Invs.

FUTURE DATES

Interims-

Domino Printing Sciences ...... Jun. 28
Drayton Recovery Trust ...... Jun. 3
French (Thomas) ...... Jun. 2

Finals-

Dunhill ...... Jun. 3
Heath (CE) ...... Jun. 8
London Scottish Bank ...... Jun. 16
Norcros ...... Jun. 3
Somic ...... Jun. 11
Stirling Group ...... Jun. 16
Wellman ...... Jun. 15

Market unimpressed by bid to firm coffee prices

By David Blackwell

COFFEE PRODUCERS have started to work hard to put a floor under world prices. But the markets remain unimpressed, preferring to focus their attention on the high level of world stocks.

Brazil and Colombia, the world's two biggest producers, overnight on Monday agreed after a series of high level meetings to freeze stocks and limit exports to 17m bags and 13m bags (60 kgs each). At the same time, the Central American producers agreed to withhold 15 per cent of their coffee production in the 1993-94 coffee year.

Colombia 12 days ago acted independently to set an effective floor of 60 cents a lb below which it will not sell coffee. African producers have also indicated a desire for some sort of action to shift prices further away from the 20-year low of 51.65 cents seen in New York last September.

On Monday night, however, the July arabica contract in New York shed nearly 4 cents to 61.45 cents a lb on news that stocks certified against the New York contract had risen by more than 80,000 bags in a week to 5.7m bags.

Last night the New York July contract was at 63.20 cents a lb in late trading. London's July robusta contract closed at $918 a tonne, down $15 on the day.

The latest producer moves follow the collapse at the end of March of negotiations on renewing the international coffee agreement. Colombia appears to have tacitly admitted that it has been using domestic stocks to boost its market share as the latest deal sharply curtails its exports, leaving Brazil with a ceiling of 17m bags – the amount it exported in the year to the end of March.

In the same time Colombia exported 16.8m bags from a crop of 17m bags, while the four Central American countries – Costa Rica, Nicaragua, El Salvador and Guatemala – exported 10.5m bags.

The countries taking action represent about 60 per cent of world coffee production. But stocks held by consumers are estimated at between 17m and 20m bags, and as one analyst said yesterday: "Stocks like that in Antwerp and Hamburg have a far bigger depressive effect on the market than they would in producers' warehouses."

Mr Lawrence Eagles, analyst with GNI, the London broker, said the move would do very little to tighten the market as Colombia has completed its sales for last year.

Record palm oil output forecast

WORLD PALM oil production is forecast to hit a record 13.4m tonnes in calendar 1993, up 1.35m tonnes from 1992, according WORLD to Oil World, Reuter reports from Hamburg.

Palm oil output is expected to to rise 1.3m tonnes to 13m tonnes between September 1992 and October 1993. Some 90 per cent of the increase in production has come from Indonesia and Malaysia, Oil World said.

But an expected 800,000-tonne fall in world output of 16 other oils and fats combined in 1993 has caused a switch in demand into palm oil.

China, which remained largely out of the market until March, has now returned as a fairly heavy buyer of Indonesian and Malaysian palm oil. The latter two countries are the only major suppliers in the market at present.

Oil World said China should remain a large purchaser between April and September this year because Chinese palm oil stocks are low and domestic demand is high.

North Sea herring's nose dive

Ronald van der Krol on Dutch worry over depleting stocks of a staple

With the Netherlands about to celebrate the traditional opening of the "new herring" season, Dutch biologists are expressing concern that the number of the fish in the North Sea is starting to decline again after steady growth throughout the 1980s.

The North Sea's herring population is currently estimated at roughly 1.2m tonnes, an important gain compared with the late 1970s when stocks were practically wiped out, though down slightly from the most recent peak of 1.5m tonnes in 1989.

Overall, however, the total still falls well short of the previous target of 2.2m tonnes set by stock managers. It remains far below the 3m-4m tonnes of the species that swam in the North Sea just after the Second World War.

Herring, which can be eaten all year around after freezing but which tends to be consumed most often in the summer months, is a mainstay of Dutch fishmongers, accounting for 33 per cent of the average fish shop's annual turnover.

This year's season opens in the Netherlands today with a traditional charity auction of the first catch in Scheveningen, the seaside district of The Hague.

Like the public relations surrounding "beaujolais nouveau" in the wine world, the festivities attached to the "new herring" are designed to bolster the delicacy status of the country's favourite fish.

The Dutch explanation for the reduced numbers is as regularly recurring as the marketing extravaganza that accompanies the start each year of the herring season: Danish trawlers systematically overfish young herring in the waters of Skagerrak and Kattegat to supply their fishmeal industry, weakening the ability of the population to reproduce in the North Sea, the Dutch say.

"The problem remains acute, and Brussels has yet to take sufficient action against the Danes," Mr Ad Corten, a biologist and herring specialist at the Dutch national fisheries research institute RIVO, says.

Still, numbers have improved considerably since all herring fishing was banned in the North Sea from 1977 to 1981 to give dwindling stocks a chance to recover. Mr Corten says the recovery of shoals since then shows that stock management can be successful.

Nevertheless, biologists are concerned about a new policy by the Dutch government aimed at preserving a "biological" minimum of fish for population replacement rather than a minimum number of fish needed to foster stable and commercially-viable catches. According to Mr Corten, this could lead to strong fluctuations in the number of herring in the future.

The appellation "new herring" is a slight misnomer. The fish are generally three years old and are considered to be at their tastiest in the months of May and June, when they rapidly put on fat to prepare for the autumn and winter.

The Dutch fishing industry is hoping for a repeat of the 1991 season, when the herring were of the right size and the right fat content to make that year's "vintage" top quality. In 1992, the herring were smaller and contained less fat.

Anglo American edges RTZ to win Brazil copper deposit stake

By Kenneth Gooding, Mining Correspondent in Brazilia

A TUSSLE between the world's two biggest mining companies, RTZ Corporation of the UK and Anglo American Corporation of South Africa, for a stake in a world-class copper project in Brazil has been won by Anglo.

The copper deposit, at Salobo in the Carajas region of the Amazon, is owned by Companhia Vale do Rio Doce (CVRD), Brazil's biggest state-controlled mining group.

The project, which is expected to cost $750m, is very important for Brazil which at present has to import much of its copper requirements.

Anglo, acting through its Brazilian affiliate, Moro Velho, won the joint venture race by offering CVRD better terms. Unlike RTZ, it was not insisting on a majority stake and operational control. Anglo and CVRD will start a feasibility study which is expected to result in the partners moving ahead to develop a mine producing 150.000 tonnes a year of copper and 8,000 tonnes of gold. They hope to complete the study in one year and then to get the mine into production in another three years.

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	+4,625	to 1,801,600
Copper	+725	to 414,400
Lead	-75	to 254,050
Nickel	+324	to 94,980
Zinc	+4,375	to 659,750
Tin	-80	to 20,270

The Salobo deposit was discovered in 1976. Since then, CVRD has spent $120m on it.

CVRD already has established that the ore body consists of at least 700m tonnes containing 0.7 per cent copper and 0.5 grams of gold a tonnes. There is more ore to be discovered.

Development has been held back because of its unusual ore. It has to be ground into a very fine powder because the copper is disseminated through it.

RTZ is continuing talks with CVRD about the possibility of some form of joint venture associated with nickel deposits owned by the two groups.

Mr Antonio Netto, technical director of RTZ Minercao, the UK group's holding company in Brazil, said its nickel project at Fortaleza das Minas in Minas Gerais state is very high grade. But the reserve of 7-8m tonnes, not enough to support investment in a concentrator, smelter and refinery needed because there are none in the country.

CVRD has a nickel deposit in Carajas and it might be possible for the two groups to share a nickel refinery in Brazil.

EBRD to give $174m oil loan to Russia

By Deborah Hargreaves

THE EUROPEAN Bank for Reconstruction and Development is to lend $174m to Russia for improving oil production in western Siberia. The loan will be made to the Purneftegas Oil Producing Association for the rehabilitation of 300 wells.

The US government made a $50m loan to the Polar Lights partnership which was created to develop four oilfields in Russia's polar region. The Polar Lights joint venture is run by Conoco, the US oil company, and Arkhangelslgeologia of Russia. They are initially planning to invest $300m to develop a 100m-barrel oilfield.

● Oil from the giant Tengiz field in Kazakhstan is about to low hit the markets, less than two months after a deal to develop the field was signed, said Richard Matzke, president of Chevron Overseas Petroleum, Reuter reports.

Kazakhstan moves to promote its chrome and ferro-alloys

By Kenneth Gooding, Mining Correspondent

KAZAKHSTAN'S CHROME and ferro-alloys industry, which is being widely blamed for the low prices causing havoc in western markets, has formed a new organisation, with some help from western traders, to defend and promote its interests internationally.

This move comes at a time when it is widely expected in the industry that the European Commission will shortly impose anti-dumping duties on imports of ferro-silicon into the community from several countries.

Called the International Chromium Committee of Kazakhstan, the new organisation's membership includes senior officials from the Donskoye mining complex near Khromtau, reputed to have the biggest chrome mine in the world with an annual output of 3m tonnes of ore, and the Yermak ferro-alloy plant, which produces about 600,000 tonnes of ferro-silicon and 400,000 tonnes of ferro-chrome a year.

Also involved in the new organisation is the New York-based trading company AIOC Corporation.

Mr Elliot Spitz, executive vice-president of AIOC, said the move indicated that the Kazakhstan industry was resisting approaches for it to join with some western producers and had decided to take an independent direction. This followed meetings between Kazakhstan officials and US stainless steel companies recently.

"We are seeing a reorganisation of the basic industries of the former Soviet Union with associations being formed at national and regional levels. Various friendly western organisations are helping to establish these organisations," said Mr Spitz.

AIOC is also a member of the International Aluminium Committee set up last month by the Commonwealth of Independent States.

Outokumpu to invest $327m in Harjavalta metals complex

OUTOKUMPU, the Finnish metals and mining group, is to modernise the production facilities at its Harjavalta plant through an investment programme worth FM1.8bn ($326.9), Reuter reports from Helsinki.

"Capacity at the nickel production line will increase to 32,000 tonnes per year, the copper smelter's capacity will increase to 160,000 tpy and the copper refinery's to 125,000 tpy," Outokumpu said.

The programme, to run between 1993 and 1996, includes the copper smelter and nickel production line located at Harjavalta and the copper refinery located at Pori, both towns in western Finland.

Nickel production will increase from 18,000 tpy, copper smelter capacity from 100,000 tpy and copper refinery capacity from 70,000 tpy.

"The raw material required for expanded nickel production will be sourced from Outokumpu's wholly owned Forrestania nickel mine in Western Australia and through a long-term purchase agreement for concentrate from Western Mining Corporation's Mt Keith mine when it starts up in 1995," Outokumpu said.

"The copper raw material supply is based on the production of Outokumpu's own copper mines, existing long-term purchase agreements and additional future agreements," Outokumpu said.

Outokumpu said these copper and nickel production facilities would be among the most efficient units in the world.

"These investments also mean a considerable improvement in terms of environmental production. The Harjavalta's works' emissions will be reduced from current levels even though production will almost double."

Indian cotton export quota up

By Kunal Bose in Calcutta

THE INDIAN Cotton Advisory Board has sanctioned the export of an additional 200,000 bales of cotton of 170kg each during the season ending August 1993 after an upward revision of the crop estimate.

Earlier, the board had in phases released export quota totalling 1.5m bales. It is allowing further export as the cotton crop estimate for the 1992-93 season has been revised upward to 13m bales from the earlier 12.4m bales.

The total supply of cotton during the year will be over 16.3m bales, including the opening stock of 3.3m bales. Moreover, the country has imported 73,000 bales.

According to trade sources, the board should have allowed an additional export of at least 500,000 bales to shore up the raw cotton prices.

A bumper crop and the delay in the announcement of the export quota have kept the cotton prices low. But many of the aberrations in the market will disappear if the government accepts the the agriculture ministry suggestion of total decontrol of raw cotton export.

It wants the abolition of the export quota system which favours the government agencies and the minimum export prices for the commodity.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,590-1,640 (1,610-1,655).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.25-2.45 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 0.35-0.45 (same).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 14.35-14.90 (14.40-14.90).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 115-140 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.20-2.25 (same).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.70-5.40.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 27-39 (28-41).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 1.30-1.40 (1.40-1.50).

URANIUM: Nuexco exchange value, $ per lb, U_3O_8, 7.10 (same).

WORLD COMMODITIES PRICES

MARKET REPORT

Precious metals trading followed a familiar pattern in London as the commodity funds in New York weighed into the **GOLD** and **SILVER** markets pushing prices sharply higher, dealers said. Gold was fixed in London at $377.50 a troy ounce in the afternoon, up on the morning setting of $374.35 which had followed lower overnight prices after a sell-off by the funds on Monday. The $372 support level held well and once gold failed to go through it, upside potential was there. On the LME **TIN** moved off the lowest levels since the early 1970s, but still closed easier. The market, depressed by fundamental oversupply and poor demand prospects, faces further losses, dealers said. Three-month **COPPER** was encouraged by Monday's bounce off $1,820 support, and gradually pushed higher to test resistance above $1,850 a tonne by the close. **ZINC** rallied away from Monday's six-year lows, mostly on covering and corrective buying, as there is little joy in the fundamental picture. **LEAD** slipped back, as the rally fostered by Monday's Metaleurop cut faded. **ALUMINIUM** was mildly supported by news that Alcoa and Reynolds unions are to hold a strike vote.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)(Jul)		+ or -
Dubai	$16.03-6.08z	+.145
Brent Blend (dated)	$18.18-8.20	+0.11
Brent Blend (Jul)	$18.46-8.48	+0.11
W.T.I (1 pm est)	$19.87-9.90z	+0.12

Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$209-211	
Gas Oil	$171-172	-0.5
Heavy Fuel Oil	$68-70	-0.5
Naphtha	$184-187	+0.5
Petroleum Argus Estimates		

Other		+ or -
Gold (per troy oz)♣	$376.45	-0.3
Silver (per troy oz)♣	459.5c	+0.5
Platinum (per troy oz)	$385.00	-4.65
Palladium (per troy oz)	$118.00	-1.5
Copper (US Producer)	88.0c	-0.5
Lead (US Producer)	34.63c	
Tin (Kuala Lumpur market)	13.68r	-0.22
Tin (New York)	250c	-1
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	142.65p	+1.81*
Sheep (live weight)†♠	137.54p	+2.66*
Pigs (live weight)†	88.20p	-1.58*
London daily sugar (raw)	$290.0	-16.6
London daily sugar (white)	$296.0	-14
Tate and Lyle export price	£301.0	-12
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£166.5	
Wheat (US Dark Northern)	Unq	
Rubber (Jun)♥	59.25p	+0.5
Rubber (Jul)♥	59.50p	+0.5
Rubber (KL RSS No 1 May)	209.0m	+0.5
Coconut oil (Philippines)§	$450y	+20
Palm Oil (Malaysian)§	$362.5u	+2.5
Copra (Philippines)§	$265u	
Soyabeans (US)	£178.5z	+1
Cotton "A" index	59.85c	
Woolkops (64s Super)	362p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Aug/Sep u-Jun z-July.. v-Oct ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♠Sheep prices are now live weight prices * change from a week ago, provisional prices.

SUGAR – London FOX ($ per tonne)

White	Close	Previous	High	Low
Aug	296.90	296.00	297.00	289.50
Oct	296.00	294.50	296.50	288.00
Mar	291.50	294.60	296.00	289.00
May	292.00	297.00	292.50	292.00
Aug	297.00	-	297.00	

White 909 (585) Paris- White (FFr per tonne): Aug 1631.46 Oct 1641.21

CRUDE OIL – IPE ($/barrel)

	Latest	Previous	High	Low
Jul	18.47	18.33	18.50	18.33
Aug	18.60	18.48	18.63	18.46
Sep	18.71	18.55	18.71	18.56
Oct	18.75	18.68	18.76	18.69
Nov	18.81	18.75	18.81	18.73
IPE Index	18.42	18.45		

Turnover 14370 (17554)

GAS OIL – IPE ($/tonne)

	Latest	Previous	High	Low
Jun	169.75	170.50	170.50	169.00
Jul	170.25	171.00	171.00	169.75
Aug	172.50	172.75	172.50	171.50
Sep	174.50	174.50	174.75	173.75
Oct	177.50	177.75	177.75	176.75
Nov	179.75	179.75	179.75	179.00
Dec	182.00	181.75	182.00	181.00
Jan	182.50	182.25	182.50	181.75

Turnover 8683 (7035) lots of 100 tonnes

COTTON
Spot and shipment sales in Liverpool amounted to 198 tonnes for the week ended 21 May, against 248 tonnes in the previous week. Subdued offtake did not bring many operations. Support was forthcoming in certain specialist styles notably in the American, Israeli and Senegal range.
JUTE
June/July: C and F Dundee:- BTC USD 325. BWC USD N/A, BTD USD300. BWD USD 300. C and F Antwerp:- BTC USD 305, BWC USD 305,BTD USD 280, BWD USD 280.

COCOA – London FOX (£/tonne)

	Close	Previous	High	Low
May	637	646	640	635
Jul	664	665	664	658
Sep	680	681	680	675
Dec	700	703	702	697
Mar	720	724	722	719
May	735	738	738	733
Jul	749	752	749	
Sep	762	764	762	
Dec	783	784	785	783
Mar	809	810	811	806

Turnover: 2827 (1627) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for May 24 697.04 (695.59) 10 day average for May 25 700.72 (701.38)

COFFEE – London FOX ($/tonne)

	Close	Previous	High	Low
May	899	921	915	900
Jul	918	933	925	904
Sep	922	932	927	913
Nov	930	940	933	924
Jan	938	950	939	928
Mar	938	960	945	940

Turnover: 2650 (2872) lots of 5 tonnes
ICO indicator prices (US cents per pound) for May 24 Comp. daily 55.27 (57.05) 15 day average 53.65 (53.65)

POTATOES – London FOX (£/tonne)

	Close	Previous	High/Low
Apr	96.5	95.5	96.0
May	105.0	103.1	103.0

Turnover 12 (24) lots of 20 tonnes.

SOYAMEAL – London FOX (£/tonne)

	Close	Previous	High/Low
Jun	144.00	-	144.00

Turnover 475 (20) lots of 20 tonnes.

FREIGHT – London FOX ($10/Index point)

	Close	Previous	High	Low
May	1638	1640	1635	
Jun	1500	1535	1520	1480
Jul	1365	1390	1365	1350
Oct	1418	1435	1425	1415
BFI	1640	1636		

Turnover 275 (205)

GRAINS – London FOX (£/tonne)

Wheat	Close	Previous	High	Low
Jun	138.50	139.00	138.75	138.50
Sep	107.25	-	107.35	107.25
Nov	108.85	108.90	108.75	108.70
Jan	111.45	111.80	111.40	
Mar	113.90	114.15	113.86	
May	116.00	-	116.55	116.00
Barley	**Close**	**Previous**	**High/Low**	
Sep	106.15	-	106.25	
Jan	110.90	111.00	111.00	

Turnover: Wheat 255 (90), Barley 11 (4).
Turnover lots of 100 Tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High	Low
Jun	110.5	109.0	110.5	110.0
Jul	103.5	103.0	103.5	103.0
Oct	103.5	103.3	103.5	

Turnover27 (12) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover N/A lots
Cash	1117-8	1113.5-4.5		1116-7		
3 months	1141-2	1137-8	1146/1135	1139.5-40	1138-9	N/A lots
Copper, Grade A (£ per tonne)						Total daily turnover N/A lots
Cash	1190.5-1.5	1178-9	1174/1174	1188-9		
3 months	1206-7	1196-7	1202/1191	1205-5.5	1201-1.5	N/A lots
Lead (£ per tonne)						Total daily turnover N/A lots
Cash	260.5-1.5	265-5.5		265.25-5.5		
3 months	270.5-1.00	274.5-4.75	266/264	275-5.25	265-7	N/A lots
Nickel ($ per tonne)						Total daily turnover N/A lots
Cash	5625-35	5640-5		5655-60		
3 months	5690-5	5705-10	5725/5650	5723-4	5705-10	N/A lots
Tin ($ per tonne)						Total daily turnover N/A lots
Cash	5395-405	5425-7		5396-400		
3 months	5455-60	5485-90	5510/5500	5458-9	5500-10	N/A lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover N/A lots
Cash	957.5-8.5	948.5-7.5	953.5	953-3.5		
3 months	976-7	966-6	979/970	970-1	971-2	N/A lots

LME Closing £/$ rate:
SPOT: 1.5430 3 months: 1.53291 6 months: 1.5246 9 months: 1.5172

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	376.30-376.60	
Opening	373.50-374.00	
Morning fix	374.35	243.702
Afternoon fix	377.50	244.622
Day's high	378.30-378.60	
Day's low	372.50-372.80	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.57	6 months	2.50
2 months	2.53	12 months	2.49
3 months	2.51		

Silver fix	p/troy oz	US cts equiv
Spot	294.10	452.15
3 months	298.15	455.40
6 months	302.25	458.90
12 months	310.95	467.75

GOLD COINS

	$ price	£ equivalent
Krugerrand	372.50-375.50	242.00-244
Maple leaf	384.65-387.10	-
New Sovereign	89.0-92.00	58-60

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jul	Sep	Jul	Sep
1125	30	46	23	28
1150	17	34	37	40
1175	9	24	54	55
Copper (Grade A)	**Calls**		**Puts**	
1800	74	102	47	66
1850	50	77	73	91
1900	32	57	104	120
Coffee	**Jul**	**Sep**	**Jul**	**Sep**
900	37	65	19	43
950	16	43	48	71
1000	6	28	88	107
Cocoa	**Jul**	**Sep**	**Jul**	**Sep**
700	20	24	56	44
725	13	16	74	61
750	9	11	95	81
Brent Crude	**Jul**	**Aug**	**Jul**	**Aug**
1750	-	-	5	11
1800	-	-	11	18
1850	20	38	-	41

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High	Low
May	378.5	373.9	0	0
Jun	378.7	374.2	379.2	373.2
Jul	379.6	375.1	0	0
Aug	380.7	376.1	381.5	375.0
Oct	382.5	377.9	383.0	376.9
Dec	384.3	379.7	384.7	378.5
Feb	385.9	381.3	385.0	380.5
Apr	387.6	383.0	386.0	383.7
Jun	389.3	384.7	386.8	384.8

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High	Low
Jul	390.9	386.0	392.0	385.0
Oct	389.3	384.6	389.5	383.5
Jan	388.5	384.1	387.5	384.0
Apr	388.2	383.8	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High	Low
May	462.9	453.5	462.0	454.5
Jun	463.2	453.9	461.0	461.0
Jul	464.3	455.0	465.0	454.0
Sep	467.5	458.2	468.0	457.0
Dec	472.3	463.0	473.0	462.0
Jan	472.9	463.6	0	0
Mar	477.1	467.8	476.0	467.5
May	480.6	471.4	478.5	473.0
Jul	483.9	474.7	480.0	480.0
Sep	487.6	478.6	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High	Low
May	82.00	81.35	82.65	81.80
Jun	82.05	81.35	82.35	81.70
Jul	82.35	81.65	83.20	82.00
Aug	82.60	81.95	0	0
Sep	82.85	82.25	83.75	82.60
Oct	83.05	82.50	0	0
Nov	83.35	82.90	84.10	84.00
Dec	83.60	83.10	84.50	83.50
Jan	83.75	83.25	0	0
Feb	83.95	83.50	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High	Low
Jul	19.87	19.72	19.93	19.71
Aug	20.08	19.96	20.13	19.98
Sep	20.21	20.07	20.22	20.08
Oct	20.26	20.14	20.27	20.16
Nov	20.27	20.16	20.27	20.22
Dec	20.30	20.20	20.33	20.22
Jan	20.31	20.20	20.31	20.20
Feb	20.20	20.20	0	0
Mar	20.28	20.19	20.28	20.26
Apr	20.19	20.18	0	0

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High	Low
Jun	54.30	53.90	54.45	53.75
Jul	54.50	54.24	54.66	54.10
Aug	55.25	55.05	55.35	54.90
Sep	56.35	56.13	56.40	56.00
Oct	57.30	57.13	57.30	57.05
Nov	58.30	58.11	58.30	58.00
Dec	59.25	59.03	59.30	58.95
Jan	59.70	59.51	59.70	59.40
Feb	59.50	59.24	59.60	59.30
Mar	58.10	57.86	58.10	58.10

COCOA 10 tonnes;$/tonnes

	Close	Previous	High	Low
Jul	880	886	890	875
Sep	912	918	922	908
Dec	953	959	961	950
Mar	987	992	995	985
May	1010	1015	0	0
Jul	1030	1035	1035	1035
Sep	1053	1058	1056	1056
Dec	1085	1090	1088	1088
Mar	1119	1124	1123	1116

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High	Low
May	62.60	59.65	61.40	60.50
Jul	63.50	61.45	63.95	61.85
Sep	65.30	63.25	65.70	63.50
Dec	67.90	65.60	68.20	66.20
Mar	70.20	67.70	70.20	69.00
May	71.85	69.65	0	0
Jul	73.10	71.20	0	0
Sep	74.60	72.75	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High	Low
Jul	11.78	11.61	11.82	11.52
Oct	11.86	11.75	11.95	11.62
Mar	11.20	11.20	11.27	11.10
May	11.08	11.09	11.15	11.03
Jul	10.99	11.00	10.99	10.98
Oct	10.93	10.94	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High	Low
Jul	60.39	61.34	61.94	60.27
Oct	59.62	59.90	60.50	59.50
Dec	58.82	59.14	59.80	58.72
Mar	59.95	60.08	60.90	59.75
May	60.65	60.65	61.50	60.65
Jul	61.00	61.10	62.10	60.90
Oct	60.90	60.10	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High	Low
Jul	111.20	112.10	111.40	109.20
Sep	114.20	115.00	114.20	112.10
Nov	115.60	117.00	116.00	114.85
Jan	117.75	118.85	117.95	116.00
Mar	119.25	119.95	119.25	117.25
May	119.26	119.85	118.50	118.50
Jul	119.25	119.95	119.00	119.00
Sep	119.26	119.95	119.00	119.00

INDICES

REUTERS (Base:September 18 1931 = 100)

May 25	May 24	mnth ago	yr ago
1670.5	1681.4	1657.7	1588.1

DOW JONES (Base: Dec. 31 1974 = 100)

	May 24	May 21	mnth ago	yr ago
Spot	N/A	122.46	-	N/A
Futures	N/A	123.40	-	N/A

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High	Low
Jul	607/4	606/0	607/6	602/4
Aug	606/4	605/0	607/0	602/0
Sep	604/0	603/0	604/0	600/4
Nov	605/6	605/2	606/2	602/0
Jan	611/6	611/2	612/0	608/4
Mar	617/4	617/0	617/4	614/2
May	620/0	619/4	620/0	617/0
Jul	620/0	619/0	620/0	617/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High	Low
Jul	21.49	21.49	21.57	21.38
Aug	21.62	21.61	21.67	21.51
Sep	21.74	21.74	21.80	21.65
Oct	21.86	21.85	21.90	21.77
Dec	22.06	22.06	22.13	21.98
Jan	22.17	22.15	22.17	22.17
Mar	22.36	22.33	22.38	22.28
May	22.52	22.50	0	0
Jul	22.60	22.60	22.60	22.55
Aug	22.65	0	0	0

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High	Low
Jul	192.1	192.1	192.2	190.5
Aug	191.5	191.2	191.6	190.0
Sep	191.1	190.5	191.2	189.7
Oct	190.5	190.1	190.5	189.3
Dec	191.1	190.7	191.3	189.8
Jan	191.5	190.9	191.5	190.4
Mar	192.0	192.3	0	0
May	193.3	193.3	0	0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High	Low
Jul	224/6	227/2	226/6	224/0
Sep	229/6	232/2	231/6	229/0
Dec	236/6	239/0	238/2	235/6
Mar	243/6	245/6	245/2	243/0
May	248/4	250/6	250/0	248/0
Jul	252/0	254/2	253/2	251/4
Sep	249/0	251/0	249/0	249/0
Dec	248/4	250/0	249/0	248/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High	Low
Jul	289/6	293/4	293/4	288/4
Sep	292/0	297/0	296/2	291/4
Dec	303/4	308/2	307/4	303/2
Mar	310/0	315/2	314/0	310/0
May	310/0	315/0	313/0	310/0
Jul	309/0	312/0	310/4	309/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High	Low
Jun	75.600	75.600	76.100	75.550
Aug	73.575	73.175	73.950	73.400
Oct	74.275	74.175	74.625	74.250
Dec	74.175	74.125	74.425	74.075
Feb	73.725	73.625	73.875	73.725
Apr	74.700	74.650	74.950	74.700
Jun	71.750	71.800	71.950	71.750

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High	Low
Jun	53.025	52.875	53.350	52.700
Jul	51.975	51.975	52.575	51.775
Aug	49.900	50.100	50.600	49.775
Oct	44.175	43.975	44.450	43.850
Dec	45.150	44.825	45.500	44.900
Feb	45.150	44.800	45.300	45.000
Apr	43.750	43.600	43.950	43.750
Jun	48.900	48.800	49.000	48.800

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High	Low
Jul	43.050	42.850	44.150	42.300
Aug	41.125	41.075	42.300	40.600
Feb	41.625	41.625	42.400	41.500
Mar	40.750	40.750	41.500	40.750
May	42.025	42.025	0	0

Picture brightens towards the close

By Terry Byland, UK Stock Market Editor

AN UNCERTAIN session in the UK stock market yesterday ended on a more confident note, with a rebound in the trading issues of Zeneca, which will be formally demerged from ICI next week, relieving some of the equity sector's worries over current funding pressures. London was also helped at the close when Wall Street opened firmly in spite of a sharp fall in US consumer confidence.

However, *market strategists* hesitated to put too much faith in yesterday's gain of 12.1 to 2,837.7 in the FT-SE 100 Index in a session featured by the appointment of an official receiver at Speyhawk, the UK property group widely involved in office development in the City of London.

Although the stock market was in plus territory throughout the session, progress was fitful and equities were often driven by development in stock index futures, where the June contract on the Footsie lost its fair value premium during the afternoon.

With the bond market facing a £3bn auction of government securities today, the big institutions were still inclined to stand aside from equities. Seaq volume increased to 591.2m shares but analysts pointed to a retail worth of only £1.06bn on Monday's Seaq total of 510.5m shares.

Trading in the non-Footsie stocks slackened somewhat, making up only about 54 per cent of the day's Seaq total. Although finally at another new peak of 3,172.7, the FT-SE Mid 250 was ahead only 4.3 points on the session.

Suspension of Speyhawk shares, ahead of disclosure that a receiver had been appointed, had a relatively mild effect on a stock market well versed in the overhanging problems of the property sector, and now focusing on recovery prospects.

The late uptick in Zeneca issues, seen by some analysts as a sign that the pre-launch selling may be drawing to a close, had favourable implications for the market as a whole. Similarly positive was evident support for BT shares as the campaign for the BT3 sale got under way in the City.

The market is still towards the lower end of its existing trading range and there were no claims yesterday that the corner had yet been turned. However, if today's government bond auction passes off satisfactorily, then the stock market will have cleared another of the hurdles which have been restraining investment confidence over the past six weeks or so.

Uncertainty over the progress of economic recovery in the UK is also likely to remain unanswered, at least until the next set of monthly economic data arrives, with the unemployment statistics expected to remain in the forefront of the market's collective mind.

Most of the features reflected developments in particular stocks rather than in wider aspects of the stock market – "*a market for stocks*, rather than a stock market," commented Mr Paul Harrison at Salomon International.

The strength of the Hong Kong market brought buyers in for some Far Eastern issues. But most of the blue chip internationals traded quietly, the pharmaceuticals extending the losses of recent sessions.

On the domestic side, brewery shares rallied from the losses suffered in the wake of last week's trading news from the sector, but retail stores could make little progress.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ASDA Group†	12,000	69¼	-½
Abbey National†	4,300	418	+3
Albert Fisher	327	85	
Allied-Lyons†	3,400	529	+8
Amstrad	7,100	32½	+½
Anglian Water†	897	477	-5
Argos	904	309	
Argyll Group†	8,600	314	-3
Arjo Wiggins†	1,600	181	+1
Ass. Brit. Foods†	239	471	-1
Ass. Brit. Ports	342	420	+4
BAA†	457	740	-1
BAT Inds.†	1,400	833	-12
BET	2,300	105	+1
BICC	1,800	403½	+18½
BOC†	2,000	687	-2
BP†	6,800	308½	-½
BPB Inds.	1,000	237	-3
BT†	15,000	427½	+14½
BTR†	3,800	599	+3
Bank of Scotland†	1,500	144½	-2½
Barclays†	5,400	457	
Bass†	2,000	462	-3
Blue Circle†	2,500	258	+1
Booker	843	371	+2
Boots†	2,700	429	-5
Bowater†	1,700	478	+3
Brit. Aerospace	780	325	+1
British Airways†	8,400	310	+3
British Gas†	5,500	289½	+1½
British Land	2,200	318	+2
British Steel†	9,100	100¼	-2½
Bunzl	156	125	-1
Burmah Castrol†	422	699	+8
Burton	894	85½	-1
Cable & Wire.†	2,800	749	+25
Cadbury Schweppes†	1,100	431	+9
Calor Group	9	237	
Carlton Comms.†	918	733	
Coats Viyella†	708	232	
Comm. Union†	942	568	-3
Cookson	1,200	189	-3
Courtaulds†	1,900	522	+9
Dalgety	610	426	-1
De La Rue†	258	856	+2
Dixons	2,100	218	-2
Eastern Elect.	311	472	+2
East Midland Elect.	409	463	+3
Eng China Clays†	705	433	
Enterprise Oil†	330	465	+3
Eurotunnel Units	121	400	+6
FKI	694	134	
Fisons†	7,200	169	+5
Foreign & Col. I.T.	808	224½	+1
Forte†	3,000	193	+4
Gen. Accident†	517	563	-3
General Elect.†	3,400	330	+3
Glaxo†	4,800	686	-3
Glynwed Int.	101	301	+2
Granada†	4,200	391	-6
Grand Met.†	4,100	398	-5
GUS A†	68	1836	-14
GRE†	1,400	175	-2
GKN	227	447	+2
Guinness†	2,700	487	+7
HSBC (75p shs)†	3,300	631	+16
Hammerson 'A'	515	336	+8
Hanson†	3,400	233½	-1
Hanson Warrants	305	23½	
Harrisons Crosfield	709	185	-1
Hillsdown	4,500	147	+2
IMI	130	275	-2
ICI†	2,000	1268	+8
Inchcape†	1,800	561	+8
Johnson Matthey	217	448	+½
Kingfisher†	747	580	+2
Kwik Save†	69	776	-4
Ladbroke†	2,700	180	+½
Land Securities†	3,200	584	+1
Laporte	638	613	
Legal & General†	701	470	+4
Lloyds Abbey	151	419	-1
Lloyds Bank†	2,000	540	+4
LASMO†	2,200	145	-1
London Elect.	288	469	
Lonrho	2,100	118	
Lucas	2,200	153½	-½
MB Caradon†	184	310	
MEPC	585	445	+4
MFI	547	135	-½
Manweb	337	528	+2
Marks & Spencer†	4,000	334	-1
Midlands Elect.	379	472	+3
Morrison (Wm.)	749	153	-1
NFC†	1,200	264	+2
NatWest Bank†	3,500	470	-5
National Power†	2,000	332	
Next	768	103½	-1
North West Water†	588	480	-1
Northern Elect.	32	611	-1
Northern Foods†	2,700	254	-5
Norweb	387	509	+2
Pearson†	925	444	-5
P & O†	1,600	607	+2
Pilkington	868	134	+2
PowerGen†	551	342½	+1½
Prudential†	2,800	319	+½
RMC	491	735	+1
RTZ†	1,000	651	+6
Racal	834	197	-1
Rank Org.†	627	709	-8
Reckitt & Colman†	2,100	542	+2
Redland†	1,500	505	+8
Reed Intl.†	807	645	-1
Rentokil†	2,000	186	
Reuters†	1,600	1308	-2
Rolls Royce	3,000	145	
Rothmans†	655	630	+1
Ryl Bk Scotland†	1,200	287	+5
Royal Insurance†	1,700	286	-2
Saatchi	938	179	-2
Sainsbury†	157	469	+1
Scottish & New.†	604	454	+6
Scot. Hydro-Elect.†	707	332	+3
Scottish Power†	2,100	311½	+1
Sears†	4,000	99½	+½
Sedgwick	68	167	
Seeboard	11	504	+2
Severn Trent Water†	1,100	479	-3
Shell Transport†	4,400	610	+3
Siebe†	1,800	482	+8
Slough Ests	1,700	215	-5
Smith (W.H.) A	498	428	-1
Smith & Nephew†	6,400	141¼	-1
SmKl Beecham†	1,100	467	
SmKl Beecham Uts.†	675	418	-2
Smiths Inds.	244	342	-7
Southern Elect.†	448	474	+2
South Wales Elect.	25	636	-1
South West Water	274	507	+1
South West. Elect.	28	491	+1
Southern Water	249	480½	-6½
Standard Chartd.†	178	727	
Storehouse	969	202	+1
Sun Alliance†	3,800	324	
T&N	778	171	+3
TI Group†	514	338	+3
TSB†	2,500	168	+1
Tarmac	3,300	138	-½
Tate & Lyle†	2,000	359	-3
Taylor Woodrow	928	110	
Tesco†	5,300	211½	-2
Thames Water†	1,500	501	-2
Thorn EMI†	2,200	856	+26
Tomkins†	1,900	229	+1½
Trafalgar House	9,800	109	+10
Unigate	446	355	-1
Unilever†	2,800	1028	+17
United Biscuits†	4,700	409	+5
Utd. Newspapers	544	603	-5
Vodafone†	2,600	419	
Warburg (SG)	387	700	-4
Wellcome†	4,800	780	+3
Welsh Water	601	551	-1
Wessex Water	1,500	559	-3
Whitbread 'A'†	1,600	478	-2
Williams Hldgs.†	6,400	310	-10
Willis Corroon	87	197	-1
Wimpey	64	180	-2
Wolseley	830	658	+3
Yorkshire Elect.	834	516	+3
Yorkshire Water	153	515	-4

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

Account Dealing Dates

*First Dealings:		
May 10	May 24	Jun 7
Option Declarations:		
May 20	Jun 3	Jun 17
Last Dealings:		
May 21	Jun 4	Jun 18
Account Day:		
Jun 1	Jun 14	Jun 28

*New time dealings may take place from 8.30am two business days earlier.

Chemicals sector pressures

RUMOURS that **Courtaulds**, the chemicals group, was poised to announce a rights issue with its results today depressed the share price in early dealings, but were finding little credence by the close of trading.

One analyst had warned earlier this week that a bear raid on Courtaulds "was not impossible" given the company's net debt of as much as £400m and impending demands on shareholders from Zeneca and BT.

Moreover, the specific nature of yesterday's rights rumours – that Courtaulds would announce a one-for-four cash call to raise £450m – pointed to a bear raid and the shares, down 9 at one stage, turned the corner in the afternoon to end 9 ahead at 522p. Courtaulds is expected to announce full year profits of around £190m today.

Zeneca bounces

Securities houses involved in the forthcoming £1.3bn Zeneca rights issue were relieved to see a bounce in the shares, which have been drifting dangerously close to the rights level of 600p a share. The Zeneca ex-rights price quoted in the official grey market recovered 8 to 630p with 2.4m dealt, while the nil-paid bounced 6 to 36p on heavy turnover of 3.1m.

Traders said S.G. Warburg, BZW and Goldman Sachs, the primary underwriters, were all bidding for stock yesterday. Meanwhile, the ICI "new" rose 4 to 636p and the existing shares added 8 at 1268p.

Williams upset

News that Williams Holdings, the industrial conglomerate, is to lose Mr Brian McGowan, its chief executive, sent a tremor through the stock as investors searched for what might lie behind the resignation announcement.

There were hints that some very downbeat comment on the company would be made in today's UK newspapers, and the shares fell 14 before rallying to end a net 10 down at 310p after 6.4m traded.

Mr Geoff Alum at NatWest Securities said: "McGowan was a good man and this is a loss in the short term. However, it may prove a turning point in the long term."

Thorn EMI pleases

Results at the top end of market expectations sent **Thorn EMI** ahead 26 to 856p. There was also an element of relief that the figures dispelled some of the worries overhanging the stock in recent months. These have included concern over the effect of a US inquiry into rental business, and most lately over the official UK inquiry into compact disc prices.

Those troubles were largely forgotten yesterday as a welter of upgrades and buy recommendations were disclosed. In particular, the contribution of Virgin Records, bought last year, defied the more cautious expectations. Mr Hamish Dickson at Hoare Govett said: "One of the most attractive aspects is Thorn's continuing ability to increase its margins in its music business." Analysts upgraded profits forecasts to a range of £360m to £385m for 1993-94.

BT in demand

News that the organisers of the flotation of the third tranche of BT shares, labelled BT III, will positively encourage the big institutions to increase their share stakes in BT before BT III is launched saw BT shares surge ahead yesterday.

Significantly, turnover in BT stock traded in the market picked up strongly yesterday, with 14m shares changing hands. "The BT marketing effort is now in full swing and there is a widespread feeling around the market that the move to reward pre-issue buyers of BT has got the big institutions on the side of BT," said one telecoms specialist.

It was pointed out that institutions who sold short of BT shares prior to BT 11 in 1991 were penalised by having their allocations of BT 11 restricted. Some funds moved to big underweight positions in BT and therefore suffered post the flotation, having to purchase stock in the open market to regain weightings.

Dealers said the market is bracing itself for a number of research notes on BT as the marketing campaign builds up. "Coded signals in the market suggest that there will not be many sell recommendations in BT in the next few weeks," was the comment of one broker not locked into the flotation process.

BT shares closed 14½ higher at 427½p after heavy turnover of 14m. The shares reached an all-time high of 442p on March 31 this year, before slipping back after the resignation of previous finance director Mr Barry Romeril.

A surprise announcement from *J Sainsbury* and Boots that the latter would open pharmacies in several of the former's supermarkets intrigued the market. Boots shares fell on the news, said by dealers to concern worries that Boots may have trouble gaining licences. They closed 5 off at 429p. However, analysts close to the company said that they believed Boots would begin non-prescription drug operations in the event of not getting licences. It was also suggested that the two groups had already advanced plans to extend the experiment to a majority of Sainsbury's stores. Sainsbury shares were up a penny at 469p.

Safeway supermarket owner **Argyll Group** produced full-year profits at the top end of market expectations, although profit-taking cut short any advance in the shares. They closed off 3 at 314p in turnover of 8.3m. Baring Securities raised its forecast to £460m for next year.

Publicity given to Friday's purchases of **Burmah Castrol** shares by two of the company's directors was said to have encouraged persistent support for Burmah shares which ran up 8 more to 699p.

Cable and Wireless extended Monday's strong performance, closing a further 25 higher at 749p. The shares were boosted by the impressive performance of shares in the near-60 per cent owned Hong Kong Telecom on the Hong Kong market overnight, and a feelingamong stock market chartists that the shares are now a strong chart buy.

HK Telecom is scheduled to announce its preliminary results tomorrow with NatWest Securities forecasting a 14 per cent increase in pre-tax profits to HK$7.38bn. NatWest emphasised "the flow of positive news out of C & W, its good earnings and dividend prospects for 1993/4" and reiterated its long-term positive stance on the shares.

C & W's preliminary figures are due on June 22 with NatWest forecasting pre-tax profits of £800m, compared with last time's £644m, and a near 15 per cent increase in the dividend total to 15.2p.

The electronics sector provided a host of strong performers, notably **Tunstall Group**, the emergency communications equipment manufacturer whose shares raced up 24 to 437p *following* much better than expected interim results. Group profits of £3.2m compared with most market estimates in the region of £2.7m.

Quality Software, which peaked at 538p on its market debut last month, returned to prominence, closing 17 firmer at 496p.

The blow to Speyhawk, whose shares were suspended yesterday at 14p after calling in the receivers, prompted fresh fears in the sector of a second wave of receiverships. Mr Graham Stanley at NatWest Securities said such a move could jeopadise the recovery in investment yields and recommended stocks with strong cash flow rather than those relying soley on an improvement in property yields.

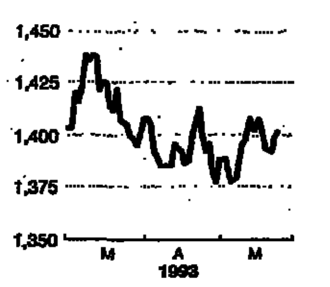
The Speyhawk move dented the recovery in the property shares seen in recent sessions, although a spurt in late trading left most of the leaders positive.

Pharmaceuticals company **Medeva** rose 3 to 218p after announcing that phase three clinical trials had begun on a wart treatment it is developing with US group Matrix Pharmaceuticals.

MARKET REPORTERS:
Christopher Price,
Steve Thompson,
Peter John.

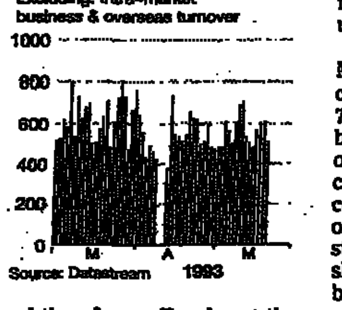
■ Other statistics, Page 21

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding: intra-market business & overseas turnover



Source: Datastream 1993

NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (152).
BANKS (8) Abbey Natl., Natl. Australia, Ryl. Bk. Scotland, Sakura, Sanwa, Sumitomo, BLDG MATLS (7) BMSS, Brit. Dredging, Lilleshall, Do 9pc Prf., RMC, Wolseley, BUSINESS SERVS (3) Hutchison Whmp., Page (M), Securiguard, CHEMS (1) Hartons, CONGLOMERATES (3) Jardine, Trafalgar Hse., Do A, CONTG & CONSTRCN (6) Barcom, Gleeson (MJ), Green (E), Hewden-Stuart, McAlpine (A), Sheriff, ELECTRICALS (8) BICC, Do 10¾pc Cv. Bd. '20, Bulgin, Chloride, Critchley, NEC, ENG [illegible]
... McEwan, OTHER INDLS (2) Williams, Do 8p Pf., STORES (1) Boots, TEXTS (1) PEX, TRANSPORT (1) Transport Devlpt., PLANTATIONS (1) Rowe Evans.

FINANCIAL TIMES EQUITY INDICES

	May 25	May 24	May 21	May 20
Ordinary share	2208.5	2193.6	2187.4	2186.9
Ord. div. yield	4.24	4.26	4.25	4.26
Earning yld % full	6.15	6.14	6.13	6.14
P/E ratio net	19.90	20.04	20.05	20.03
P/E ratio nil	18.86	18.70	18.71	18.69
Gold Mines	195.3	200.3	185.3	178.3

*for 1993. Ordinary share index since compilation: high 2289.5 [illegible] Gold Mines index since compilation high: 734.7 15/2/83- low 43.[illegible] Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00
2196.1	2197.0	2197.6	2199.9	2200.4	2200.3	2202.0

Volume	May 25	May 24	May 21
SEAQ Bargains	27,691	28,748	33,159
Equity Turnover(£m)†	-	1081.7	1434.5
Equity Bargains†	-	32,844	36,829
Shares traded (ml)†	-	507.6	618.3

† Excluding intra-market business and overseas turnover.

London report and latest Share Index
Tel. 0891 123001. Calls charged at 36p/minute cheap rate. 48p at all other times.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2837.7 +12.1	3172.7 +4.3	1402.83 +4.92

	May 25	Day's change %	May 24	May 21	May 20	Year ago	Earnings yield %	Dividend yield %	P/E Ratio	Xd adj ytd
FT-SE 100	2837.7	+0.4	2825.6	2812.2	2816.8	2704.6	6.39	4.03	19.38	45.97
FT-SE Mid 250	3172.7	+0.1	3168.4	3165.1	3160.1	2808.6	5.90	3.66	21.68	38.10
FT-SE-A 350	1416.2	+0.4	1411.1	1405.6	1406.9	1328.6	6.28	3.94	19.85	21.61
FT-SE SmallCap	1612.44	+0.1	1610.87	1607.88	1605.44	–	4.42	3.53	32.18	20.01
FT-SE SmallCap ex Inv Trusts	1625.44	+0.1	1623.63	1620.28	1616.87	–	4.87	3.72	30.10	21.04
FT-A ALL-SHARE	1402.83	+0.4	1397.91	1392.63	1393.84	1314.00	6.17	3.92	20.33	21.15
1 CAPITAL GOODS(213)	990.41	+0.2	988.35	985.05	984.67	918.93	4.73	3.89	28.25	14.81
2 Building Materials(27)	1110.61	+0.3	1108.00	1100.32	1093.12	1097.92	4.57	4.37	29.89	18.38
3 Contracting, Construction(29)	982.90	-0.3	988.30	988.07	989.41	1050.95	1.84	3.33	80.00†	13.02
4 Electricals(15)	2977.96	+2.2	2913.68	2916.21	2927.38	2755.27	5.02	4.53	25.35	65.13
5 Electronics(37)	2685.65	+0.5	2670.98	2660.78	2669.50	1991.69	5.09	2.98	21.46	20.36
6 Engineering-Aerospace(7)	381.49	-0.3	382.76	384.65	387.53	395.92	‡	3.87	‡	5.13
7 Engineering-General(51)	560.20	+0.1	559.49	560.44	561.79	566.88	6.57	3.76	19.29	7.53
8 Metals & Metal Forming(11)	422.49	-1.1	427.22	422.63	421.54	373.32	3.67	2.91	41.30	2.29
9 Motors(18)	391.32	+0.2	390.73	391.73	391.43	397.08	4.98	5.63	28.68	9.59
10 Other Industrials(18)	2043.12	+0.2	2044.90	2032.56	2028.98	1888.16	5.68	4.00	21.20	37.38

[illegible]

Hourly movements

[illegible]

FT-SE Actuaries 350 Industry Baskets

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

Notes	Price £	+ or -	1993 high	1993 low	Yield Int.
"Shorts" (Lives up to Five Years)					
Treas 12½pc 1993‡‡	101	—	103⅛	101	12.38
Funding 6pc 1993‡‡	100	—	100¼	99¾	6.00
Treas 13¾pc 1993‡‡	103⅞xd	—	108⅛	103¾	13.23
8½pc 1994	101⅞	—	102⅞	101⅞	8.34
14½pc 1994‡‡	106⅛	—	109¼	106⅛	13.62
Exch 13½pc 1994	106⅞	—	109⅛	106⅞	12.63
Treas 10pc Ln 1994‡‡	104⅛xd	—	105⅞	104⅛	9.60
Exch 12½pc 1994	107¼	+⅛	110⅛	107⅛	11.60
Treas 9pc 1994‡‡	104⅛	+⅛	106⅛	103⅞	8.65
12pc 1995	108⅛	+⅛	111⅛	108⅛	11.01
Exch 3pc Gas 90-95	95⅛	—	95⅛	94	3.14
10¼pc 1995	107⅛	+⅛	109⅞	107⅛	9.52
Treas 12¾pc 1995‡‡	114⅛	+⅛	116⅞	113⅞	11.18
14pc 1996	117⅞	+⅛	120⅛	117⅛	11.93
15¼pc 1996‡‡	121⅞	—	125⅛	121⅛	12.51
Exch 13¼pc 1996‡‡	118⅛	+⅛	120⅛	116½	11.34
Conversion 10pc 1996	109⅛	+⅛	111½	106⅞	9.15
Treas 13¼pc 1997‡‡	119⅛	+⅛	122⅞	118⅛	11.19
Exch 10½pc 1997	111	+⅛	113⅞	110⅛	9.46
Treas 8¾pc 1997‡‡	105⅛	+⅛	106⅛	102⅛	8.26
Exch 15pc 1997	128⅛	—	132⅛	127⅛	11.71
9¾pc 1998	109½	—	112⅛	109⅛	8.90
Treas 7¼pc 1998‡‡	100⅛	—	103¼	99⅞	7.21
7¼pc 1998 A‡‡	100¼	—	101⅛	99⅞	7.22
Treas 6¾pc 1995-98‡‡	98⅛	—	101	97⅛	6.84
Five to Fifteen Years					
Treas 15½pc '98‡‡	134⅛	+⅛	138⅛	133⅞	11.56
Exch 12pc 1998	118⅞	+⅛	122⅛	118⅛	10.09
Treas 9½pc 1999‡‡	108⅛	+⅛	112⅛	108⅛	8.73
Exch 12¼pc 1999	120⅛	—	124⅛	120⅛	10.19
Treas 10½pc 1999	113⅛	+⅛	117⅛	112⅛	9.25
Conversion 10¼pc 1999	112⅛xd	+⅛	117⅛	112⅛	9.09
9pc 2000‡‡	107	+⅛	110⅛	106	8.41
Treas 13pc 2000	128⅛	—	131	125⅛	10.29
10pc 2001	111⅛	+⅛	115⅛	109⅛	8.98
14pc '98-1	125½xd	+⅛	128⅛	123⅛	11.16
9¾pc 2002	116⅛	—	[illegible]	[illegible]	8.84
8pc 2003‡‡	98⅛xd	+⅛	103⅛	97⅛	8.04

BRITISH FUNDS - Cont.

[illegible]

OTHER FIXED INTEREST

[illegible]

Continued on next page

EQUITY FUTURES AND OPTIONS TRADING

A SLIGHTLY livelier day in the futures market, following Monday's dull session, saw trading take place in a tight range, still with very little for investors to focus on, writes Christopher Price.

The June FT-SE 100 contract opened positively at 2,842 but quickly lost ground as sellers came in. It settled to trade in a tight 12-point range in a roller coaster ride during which some good two-way business was transacted.

The relatively mild reaction to improvement in Britain's GDP figures was symptomatic, according to dealers, of the general drift in the London market in recent sessions.

A positive Wall Street helped to push June into higher terrain, although resistance was being encountered at the 2,843 level. A large order, said to have originated at the close from Goldman Sachs, sent the June contract to its high of the day of 2,846, before drifting off in final deals.

June closed at 2,844, around 2 points above its fair value premium of about 5.5. Volume was 6,638 lots, still poor but an improvement from Monday.

In traded options, British Steel was again the busiest stock, reaching 2,700 contracts. It had traded more than 7,000 on Monday. The overall volume yesterday was 33,643 lots, of which 7,583 were dealt in the FT-SE option. BT followed with 2,238 contracts transacted, and Rolls-Royce was next with 1,658.

LONDON SHARE SERVICE

AMERICANS

Notes	Price £	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbott Labs	18⅛xd	+⅛	20⅞	15⅞	15,328	2.3
Allegheny & W ♥	560p	—	605p	398p	291.0	3.4
Amdahl	348p	+6	881p	302½p	389.8	0.9
Amer Cyanamid	33½	+⅛	38⅝	31¼	3,020	3.1
Amer Express	18¼xd	—	19½	14⅞	8,783	3.6
Amer T & T	39¼xd	+⅝	40⅞	33¼	62,032	2.1
Ameritech	46⅝	-¼	52¼	46	20,414	3.0
BankAmerica	28⅞xd	+⅜	33⅞	27⅞	10,087	3.0
Bankers NY	46xd	-⅝	51⅞	42⅝	3,892	4.3
Bell Atlantic	34⅞	+¼	38⅛	32¼	15,087	4.8
BellSouth	33¾	-⅛	39⅞	32⅞	16,872	5.2
Bethlehem Steel ♥	12⅞xd	-⅛	13¾	10	1,142	-
Bowater	1378pxd	-33	1682p	1335p	498.6	1.8
CPC	28xd	-⅝	34⅝	28	4,241	2.9
Cadiz Land Inc ♥	113p	—	115p	53p	-	-
California Engy	1368p	—	1479p	1085p	247.2	-
Chase Manhattan	18⅞xd	-⅜	24½	17⅞	2,956	4.0
Chrysler	27⅞xd	+⅛	28⅞	21¼	8,181	1.4
Citicorp	17⅞xd	-⅜	20⅞	13⅞	6,557	-
Colgate-Palm	38⅝xd	—	45⅝	35¼	6,167	2.0
Cont'l Bank	1606p	-17	1677p	1278p	1,521	2.5
Dana	32⅞xd	+⅞	34⅞	29⅞	1,489	3.1
Data General	728p	+60	951p	583p	200.9	-
Decora Inds ♥	123p	-16	148p	109p	-	-
Dun & Brad	38⅛	-⅜	42⅞	37⅛	6,839	4.0
Eaton	55⅞	+⅝	69⅝	50⅝	1,924	2.5
Echlin	16⅝xd	+⅜	18⅞	15⅛	652.8	2.8
FPL	23⅞xd	-⅞	27⅝	23¼	4,348	6.5
Ford Motor	33⅛xd	+⅞	36⅞	28⅞	16,280	1.9
Gen Elect	59⅞xd	-⅛	62⅞	53⅞	51,135	2.7
General Host ♥	583p	-19	723p	566p	-	3.9
Gillette	33⅝xd	-⅛	42⅝	31½	7,308	1.8
Hasbro	20⅞	—	20⅞	20⅞	1,819	0.7
Honeywell	24xd	-⅜	24⅞	20⅞	3,290	2.3
Houston Inds	28⅝	-¼	33¼	28¼	3,707	6.6
Ingersoll-Rand	21⅛xd	-½	25	19⅞	2,233	2.1
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CANADIANS

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

Notes	Price	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's	P/E
Tudor	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Unigroup	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Waterhouse	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Wickes	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Wolseley	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING-AEROSPACE

[illegible]

ENGINEERING-GENERAL

[illegible]

ENGINEERING-GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

مكتبة الأهرام

INVESTMENT TRUSTS - Cont.

[illegible]

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

INVESTMENT COMPANIES

[illegible]

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

Notes	Price	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Europa Mins	23	—	23	15	11.1	-
Glencar Expl IR ‡‡	12	—	12	6	2.22	-
Greenwich Res	29½	—	21	5	15.8	-
Hecla Gold C$	£6⅝	—	£6⅝	£3½	841.0	1.4
Ivernia West IR ‡‡□	63	+2	57	31	26.7	-
Kenmare □	10¾	—	13½	6	10.3	-
Malinga Res.	14½	—	25½	14	1.80	-
Navan Res IR	42	—	42	25	5.83	-
5pc Ln Notes	42	+1	42	25	7.14	-
Oryx Gold	62¾	—	71	47	-	-
‡‡Ovoca Res IR	3½	—	3½	3½	0.24	-
RTZ □	651	+6	709	607	6,724	4.1
Vizcaya	5¼#	—	5¼	2¾	3.06	-

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

□ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
● "Tap Stock"
• Highs and lows marked thus have been adjusted to allow for rights issues for cash
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
φ Figures or report awaited
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
♣ Free annual/interim report available, see details below.
✠ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
# Price at time of suspension
¶ Indicated dividend yield after pending scrip and/or rights issue.
♦ Merger bid or reorganisation in progress
§ Forecast dividend yield; p/e based on earnings updated by latest interim statement.
♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IIMR 'Headline Earnings' draft proposals.
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

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INSURANCES

OTHER UK UNIT TRUSTS

FT MANAGED FUNDS SERVICE

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Providence Capital Life Assc. Co Ltd - Contd.

Alpha Pension Funds	Bid Price	Offer Price	+ or -	Yield Gross
UK Alpha		220.7	+1.2	-
US Alpha		119.2	+0.4	-
Gilt Alpha		84.8		-
Gold Alpha		88.7	-0.7	-
Japan Alpha		44.7	+0.3	-
US Dollar Alpha		73.6	-0.2	-
Yen Alpha		77.8	-0.1	-
DM Alpha		85.3		-
European Alpha		80.2	+0.1	-

Provident Life Assoc Ltd
Provident Way, Basingstoke RG21 2SZ 0256 470707

Gold Range (Pensions)	Bid Price	Offer Price	+ or -	Yield Gross
Discretionary Fund		156.0	+0.5	-

Provident Mutual Life Assc. Assn.
6 Hills Way Stevenage Herts SG1 2ST 0438 732000

	Bid Price	Offer Price	+ or -	Yield Gross
Managed Ord	411.8	433.5	+1.3	-
Managed Init	291.9	307.3	+0.9	-
Equity Ord	615.9	648.3	+2.7	-
Equity Init	436.5	459.5	+1.9	-
Index Linked Gilt Ord	193.0	203.2	+0.1	-
Index Linked Gilt Init	142.9	150.4	+0.1	-
Overseas Equity Ord	330.4	347.8	+1	-
Overseas Equity Init	234.2	246.5	+0.6	-
Property Ord	225.3	237.2	—	-
Property Init	169.7	188.1	—	-
Fixed Interest Ord	257.0	270.5	-0.1	-
Fixed Interest Init	182.7	191.7	-0.1	-
Deposit Ord	196.2	206.5	—	-
Deposit Init	139.0	146.3	—	-
Pension Funds				
Managed Ord	542.7	571.3	+2	-
Managed Init	384.6	404.8	+1.3	-
Equity Ord	838.4	882.5	+4.6	-
Equity Init	594.2	625.5	+3.3	-
Pen Ind Lnd Gilt Ord	219.6	231.2		-
Pen Ind Lnd Gilt Init	162.6	171.2	+0.1	-
Overseas Equity Ord	383.6	403.8	+1.2	-
Overseas Equity Init	271.8	286.1	+0.7	-
Property Ord	287.8	302.7	+0.1	-
Property Init	203.8	214.5	—	-
Fixed Interest Ord	333.8	351.4	-0.1	-
Fixed Interest Init	236.6	249.1	-0.1	-
Deposit Ord	286.9	302.0	—	-
Deposit Init	203.3	214.0	—	-

Scottish Amicable
150 St Vincent St, Glasgow 041-248 2323

Life Funds (First Series)	Bid Price	Offer Price	+ or -	Yield Gross
Managed	400.2	421.3	+1.80	-
Equity	601.9	628.4	+2.60	-
Property	239.4	252.0	—	-
International	391.9	412.6	+1.30	-
Japanese	113.8	119.8	+0.80	-
Asia Pacific	138.3	145.6	-0.30	-
European	105.4	111.0	—	-
American	137.9	145.2	+0.60	-
Fixed Interest	332.1	349.6	-0.70	-
Index-Linked Gilt	184.5	194.3	+0.10	-
Cash	219.5	231.1	—	-
Life Funds (Second Series)				
Managed	111.4	117.3	+0.50	-
Equity	107.9	113.6	+0.60	-
Property	100.6	105.9	—	-
International	121.1	127.5	+0.40	-
Japanese	114.0	120.0	+0.70	-
Asia Pacific	135.6	142.8	-0.30	-
European	104.5	110.0	—	-
American	134.8	141.9	+0.80	-
Fixed Interest	124.9	131.5	-0.20	-
Index-Linked Gilt	117.9	124.2	+0.10	-
Cash	108.8	114.6	—	-
Pension Funds				
Building Society	172.9	182.0	—	-
Managed (Init)	231.6	243.8	+1.10	-
Managed (Acc)	457.3	481.4	+2.40	-
Equity (Init)	261.9	275.7	+1.80	-
Equity (Acc)	516.9	544.2	+3.30	-
Property (Init)	143.0	150.6	—	-
Property (Acc)	282.4	297.3	—	-
International (Init)	232.1	244.4	+0.90	-
International (Acc)	458.2	482.4	+1.90	-
Fixed Interest (Init)	221.6	233.3	-0.10	-
Fixed Interest (Acc)	437.5	460.6	—	-
Cash (Init)	154.0	162.2	-0.10	-
Cash (Acc)	304.2	320.3	—	-
Others				
Capital Guarantee Bond	98.8	104.0	+0.60	-

Scottish Equitable Life Assce. Soc.
28 St Andrew Sq, Edinburgh 031-556 9101

	Bid Price	Offer Price	+ or -	Yield Gross
Mixed	222.5	234.2	+0.4	-

Sun Alliance Group - Contd.

Zurich Life Assurance Co Ltd

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

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JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar weakens against yen

THE DOLLAR dropped close to its historic lows against the yen yesterday as dealers took the view that the US would be looking for a stronger Japanese currency at this week's trade talks between Tokyo and Washington, *writes James Blitz.*

The US currency has been under pressure against the yen after last week's higher than-expected trade deficit raised speculation that US officials were seeking a depreciation of the dollar.

The yen received a further boost yesterday after Mr Lawrence Summers, the US Treasury Undersecretary, was reported as saying that a stronger Japanese currency could help to reduce Tokyo's trade surplus.

These comments helped to push the dollar down from 110.60 at the start to European trading to a close of Y109.50. This was within a shade of the dollar's all-time low of Y109.15.

The dollar's weakness against the yen was also mirrored in its exchange rate against the D-Mark during European trading yesterday.

One common factor pushing the dollar down against both currencies was a surprisingly large 6.1 percentage point fall in the US consumer confidence index, to 61.5 points in May. Forecasts had been for only a slight dip to 66.2.

The figure helped to dampen recent speculation that last week's meeting of the Federal Reserve's open market committee has mandated Mr Alan Greenspan, the Fed chairman, to raise US interest rates by 50 basis points if he so wished.

A second factor weakening the dollar against the D-Mark was a growing belief that the Bundesbank will not ease its repo rate at its weekly money market intervention today.

The Bundesbank yesterday announced a 14-day securities repurchase tender at variable rates, but few expect the current lowest rate of 7.60 per cent to fall. That is partly because Mr Helmut Schlesinger, the Bundesbank President, and Mr Otmar Issing, the Bundesbank chief economist, have recently underlined new caution on German rates because of the D-Mark's recent weakness.

These factors helped push the dollar down nearly a full pfennig against the D-Mark, to close at DM1.6285.

However, the D-Mark enjoyed little new strength against European currencies.

The Swiss franc appreciated against the D-Mark after the Swiss National Bank said that it would be taking a closer look at monetary growth in the setting of interest rate policy.

Switzerland's short term interest dates are currently at around 5 per cent, and yesterday's announcement raised speculation that the Swiss might be cautious before cutting them again. The Swiss franc closed at SFr0.895 from a previous SFr0.899.

Sterling gained some ground against the D-Mark following a slight upward revision in the UK's first quarter GDP figures. The pound later fell back to close unchanged on the day at DM2.5125.

£ IN NEW YORK

May 25	Latest	Previous Close
£ Spot	1.5415-1.5425	1.5355 1.5365
1 month	0.39-0.37pm	0.39 0.37pm
3 months	1.03-1.00pm	1.03 1.00pm
12 months	3.40-3.30pm	3.40 3.30pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	May 25	Previous
8.30 am	80.6	80.6
9.00 am	80.6	80.8
10.00 am	80.7	80.6
11.00 am	80.6	80.5
Noon	80.6	80.5
1.00 pm	80.7	80.5
2.00 pm	80.6	80.5
3.00 pm	80.8	80.5
4.00 pm	80.7	80.6

CURRENCY RATES

May 25	Bank & rate %	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.917329	0.779161
U.S Dollar	3.00	1.40443	1.19835
Canadian $	5.40	N/A	1.51172
Austrian Sch	6.75	16.2226	13.7810
Belgian Franc	6.50	47.2345	40.2596
Danish Krone	8.25	8.79805	7.49388
D-Mark	7.25	2.30495	1.95270
Dutch Guilder	6.50	2.57910	2.19322
French Franc	10	7.75386	6.59752
Italian Lira	10.50	2091.49	1782.41
Japanese Yen	2.50	155.190	132.118
Norway Krone	-	9.69970	8.27281
Spanish Peseta	-	175.568	149.410
Swedish Krona	11.50	10.2882	8.77013
Swiss Franc	5.00	2.07294	1.76062
Greek Drach	19	N/A	265.231
Irish Punt	-	N/A	0.801572

& Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland. † European Commission Calculations. * All SDR rates are for May 24

CURRENCY MOVEMENTS

May 25	Bank of England Index	Morgan ** Guaranty Changes %
Sterling	80.7	-29.25
U.S Dollar	64.1	-13.60
Canadian Dollar	95.0	-7.02
Austrian Schilling	113.6	+15.61
Belgian Franc	114.8	+0.97
Danish Krone	117.2	+11.10
D-Mark	123.1	+30.08
Swiss Franc	111.4	+19.51
Dutch Guilder	116.7	+20.40
French Franc	109.2	-7.17
Lira	82.7	-32.45
Yen	173.1	+112.30
Peseta	91.2	-30.34

Morgan Guaranty changes: average 1980-1982=100. Bank of England (Base Average 1985=100) **Rates are for May 24

OTHER CURRENCIES

May 25	£	$
Argentina	1.5415 - 1.5440	0.9990 - 1.0000
Australia	2.2085 - 2.2105	1.4270 - 1.4280
Brazil	61183.2 - 61226.6	39665.0 - 39687.0
Finland	8.4615 - 8.5035	5.4750 - 5.4950
Greece	336.950 - 342.850	218.850 - 223.250
Hong Kong	11.9250 - 11.9375	7.7270 - 7.7280
Iran	2502.00 - 2504.00	1622.00 - 1624.00
Korea(Sth)	1223.80 - 1243.30	798.00 - 804.40
Kuwait	0.46400 - 0.46500	0.30100 - 0.30150
Luxembourg	51.45 - 51.55	33.35 - 33.45
Malaysia	3.9555 - 3.9660	2.5660 - 2.5670
Mexico	4.8095 - 4.8125	3.1180 - 3.1180
N.Zealand	2.8170 - 2.8205	1.8250 - 1.8275
Saudi Ar	5.7795 - 5.7315	3.7495 - 3.7505
Singapore	2.4860 - 2.4925	1.6140 - 1.6150
S.Af (Cm)	4.9120 - 4.9230	3.1950 - 3.1970
S.Af (Fn)	7.1425 - 7.1580	4.6275 - 4.6375
Taiwan	39.90 - 40.05	25.85 - 25.95
U.A.E.	5.6595 - 5.6725	3.6715 - 3.6735

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu May 25	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Portuguese Escudo	192.854	185.049	-4.05	5.15	68
Spanish Peseta	154.250	149.410	-3.14	4.17	55
Irish Punt	0.808628	0.801572	-0.87	1.79	44
Dutch Guilder	2.19672	2.19322	-0.16	1.06	13
Belgian Franc	40.2123	40.2566	0.11	0.79	0
D-Mark	1.94384	1.95870	0.46	0.43	-23
Danish Krone	7.43679	7.49388	0.77	0.13	-30
French Franc	6.53883	6.59752	0.90	0.00	-44

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

May 25	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5345 - 1.5460	1.5420 - 1.5430	0.38-0.36cpm	2.88	1.04-1.01pm	2.66
Canada	1.9370 - 1.9480	1.9465 - 1.9475	0.27-0.19cpm	1.42	0.59-0.49pm	1.11
Netherlands	2.8075 - 2.8250	2.8075 - 2.8175	¼-½cdis	-1.60	½-⅞dis	-0.98
Belgium	51.45 - 51.85	51.45 - 51.55	5-10cdis	-1.75	12-17dis	-1.13
Denmark	9.6020 - 9.6410	9.6050 - 9.6150	1¾-3¼oredis	-3.04	4½-6⅝dis	-2.32
Ireland	1.0265 - 1.0330	1.0295 - 1.0305	0.12-0.15cdis	-1.57	0.35-0.39dis	-1.44
Germany	2.5080 - 2.5215	2.5100 - 2.5150	⅜-½pfdis	-2.09	⅞-1⅛dis	-1.59
Portugal	237.50 - 238.50	237.50 - 238.50	174-186dis	-9.08	435-466dis	-7.60
Spain	191.50 - 192.20	191.50 - 191.80	98-110cdis	-6.51	250-270dis	-5.43
Italy	2278.25 - 2293.00	2279.25 - 2280.25	8-11liredis	-5.00	25-28dis	-4.65
Norway	10.6000 - 10.6340	10.6000 - 10.6100	⅜-1⅜oredis	-1.20	2¼-4¼dis	-1.20
France	8.4510 - 8.4955	8.4525 - 8.4625	1⅛-1¾cdis	-2.22	3-3⅝dis	-1.57
Sweden	11.2090 - 11.2810	11.2350 - 11.2450	1¾-3⅝oredis	-2.87	5⅝-7½dis	-2.34
Japan	168.50 - 170.50	168.50 - 169.50	½-⅜ypm	3.11	1⅛-1⅛pm	2.81
Austria	17.64 - 17.72	17.66 - 17.69	1¾-2⅞grodis	-1.57	3⅞-5⅞dis	-1.10
Switzerland	2.2450 - 2.2630	2.2450 - 2.2550	¼cpm-par	0.67	½-¼pm	0.67
Ecu	1.2810 - 1.2860	1.2840 - 1.2850	0.21-0.25cdis	-2.15	0.49-0.55dis	-1.62

Commercial rates taken towards the end of London trading. Six-month forward dollar 1.95-1.90pm . 12 Month 3.33-3.23pm.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

May 25	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5345 - 1.5460	1.5420 - 1.5430	0.38-0.36cpm	2.88	1.04-1.01pm	2.66
Ireland†	1.4915 - 1.5025	1.5015 - 1.5025	0.60-0.57cpm	4.67	1.59-1.55pm	4.18
Canada	1.2600 - 1.2625	1.2605 - 1.2615	0.14-0.17cdis	-1.48	0.47-0.51dis	-1.55
Netherlands	1.8195 - 1.8330	1.8225 - 1.8235	0.65-0.68cdis	-4.38	1.65-1.71dis	-3.69
Belgium	33.35 - 33.65	33.35 - 33.45	11.00-13.00cdis	-4.31	30.00-35.00dis	-3.89
Denmark	6.2175 - 6.2635	6.2275 - 6.2325	2.75-3.50oredis	-6.02	7.30-8.50dis	-5.07
Germany	1.6250 - 1.6375	1.6280 - 1.6290	0.68-0.69pfdis	-5.05	1.75-1.77dis	-4.32
Portugal	153.60 - 154.80	153.60 - 153.70	148-153cdis	-11.75	392-412dis	-10.47
Spain	124.05 - 124.90	124.25 - 124.35	92-97cdis	-9.12	250-258dis	-8.17
Italy	1477.00 - 1491.25	1477.75 - 1478.25	9.60-10.30liredis	-8.08	27.20-28.30dis	-7.51
Norway	6.8660 - 6.9175	6.8725 - 6.8775	2.25-2.75oredis	-4.36	6.30-7.30dis	-3.96
France	5.4735 - 5.5175	5.4800 - 5.4850	2.30-2.40cdis	-5.14	5.80-5.95dis	-4.29
Sweden	7.2690 - 7.3340	7.2850 - 7.2900	3.25-3.85oredis	-5.85	8.80-9.90dis	-5.13
Japan	109.35 - 110.70	109.45 - 109.55	par-0.01ydis	-0.05	par-0.01dis	-0.02
Austria	11.4420 - 11.5100	11.4425 - 11.4475	4.05-4.35grodis	-4.40	10.60-11.40dis	-3.84
Switzerland	1.4555 - 1.4705	1.4585 - 1.4595	0.24-0.27cdis	-2.10	0.67-0.72dis	-1.91
Ecu†	1.1935 - 1.2050	1.2025 - 1.2035	0.51-0.50cpm	5.04	1.29-1.27pm	4.25

Commercial rates taken towards the end of London trading. † UK, Ireland and Ecu are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

May 25	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	6 - 5¾	5⅞ - 5⅝	5 13/16 - 5 11/16	6 - 5⅞	6 - 5⅞	6 3/16 - 6 1/16
US Dollar	3 3/16 - 3 1/16	3⅛ - 3	3 3/16 - 3 1/16	3⅜ - 3¼	3 7/16 - 3 5/16	3 13/16 - 3 11/16
Can. Dollar	4⅝ - 4⅜	4½ - 4¼	4¾ - 4½	5⅛ - 4⅞	5 5/16 - 5 1/16	6⅛ - 5⅞
Dutch Guilder	7¼ - 7⅛	7 5/16 - 7 3/16	7¼ - 7⅛	6 13/16 - 6 11/16	6 9/16 - 6 7/16	6⅜ - 6¼
Swiss Franc	5 - 4¾	5¼ - 5	5 3/16 - 5 1/16	5⅛ - 5	4 13/16 - 4 11/16	4 13/16 - 4 11/16
D-Mark	7 13/16 - 7 11/16	7⅞ - 7¾	7 13/16 - 7 11/16	7½ - 7⅜	7 3/16 - 7 1/16	6¾ - 6⅝
French Franc	8 - 7⅞	8 - 7⅞	7⅞ - 7¾	7 7/16 - 7 5/16	7 3/16 - 7 1/16	6 13/16 - 6 11/16
Italian Lira	12½ - 10½	10¾ - 10½	10¾ - 10⅝	10⅝ - 10¼	10⅝ - 10¼	10⅜ - 10⅛
Belgian Franc	7⅜ - 7¼	7 7/16 - 7 5/16	7 5/16 - 7 3/16	7 3/16 - 7 1/16	6⅞ - 6¾	6¾ - 6⅝
Yen	3 5/16 - 3⅛	3¼ - 3⅛	3 5/16 - 3¼	3 5/16 - 3¼	3⅜ - 3¼	3½ - 3⅜
Danish Krone	9¼ - 8¾	9½ - 8¾	9½ - 8½	8½ - 8	8 - 7½	7⅞ - 7⅜
Asian $Sing	3¼ - 2¼	3¼ - 2¼	3½ - 2½	3½ - 2½	3½ - 2½	3¾ - 2¾
Spanish Peseta	12 - 11½	12⅛ - 11⅝	11⅞ - 11⅝	11 9/16 - 11 5/16	10⅞ - 10⅝	10¾ - 10½
Portuguese Esc	14½ - 14	14½ - 14	14½ - 14	14 - 13⅞	13⅜ - 12⅞	13½ - 12¾

Long term Eurodollars: two years 4½-4⅜ per cent; three years 5-4⅞ per cent; four years 5⅜-5¼ per cent; five years 5 11/16-5 9/16 per cent nominal. Short term rates are call for US Dollar and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

May 25	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Pta.	Ecu
£	1	1.543	2.513	169.0	8.458	2.250	2.813	2280	1.947	51.60	191.7	1.286
$	0.648	1	1.629	109.5	5.482	1.458	1.823	1478	1.262	33.38	124.2	0.833
DM	0.398	0.614	1	67.25	3.366	0.895	1.119	907.3	0.775	20.49	76.28	0.511
YEN	5.917	9.130	14.87	1000.	50.05	13.31	16.64	13491	11.52	304.7	1134	7.604
F Fr.	1.182	1.824	2.971	199.8	10.	2.660	3.326	2696	2.302	60.89	226.6	1.519
S Fr.	0.444	0.686	1.117	75.11	3.759	1	1.250	1013	0.865	22.89	85.20	0.571
N Fl.	0.355	0.549	0.893	60.08	3.007	0.800	1	810.5	0.692	18.31	68.15	0.457
Lira	0.439	0.677	1.102	74.12	3.710	0.987	1.234	1000.	0.854	22.59	84.08	0.564
C $	0.514	0.793	1.291	86.80	4.344	1.158	1.445	1171	1	26.45	98.46	0.660
B Fr.	1.942	2.998	4.880	328.2	16.42	4.369	5.462	4427	3.781	100.	372.2	2.495
Pta	0.522	0.805	1.311	88.16	4.412	1.174	1.467	1189	1.016	26.86	100.	0.670
Ecu	0.778	1.201	1.956	131.5	6.582	1.751	2.189	1774	1.515	40.08	149.2	1.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

FT-SE 100 INDEX *
£25 per full index point

	Close	High	Low	Prev.
Jun	2844.0	2846.0	2829.0	2834.0
Sep	2867.0	2867.0	2854.0	2857.5
Dec	2886.0	2879.0	2879.0	2878.0

Estimated volume 10170 (7521)
Previous day's open int. 50345 (51287)

* Contracts traded on APT. Closing prices shown.

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.5425	1.5388	1.5323	1.5233	1.5097

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls June	Calls September	Calls December	Puts June	Puts September	Puts December
116	1.12	-	-	0.01	0.34	-
117	0.19	0.89	-	0.09	0.60	-
118	0.01	0.49	-	0.90	1.02	-
119	-	0.22	0.42	-	1.60	-
120	-	0.11	-	-	-	-
Open Int	139,733	106,293	25,657	153,733	90,772	13,217

Estimated volume 19,790 † Total Open Interest 553,260
† All Yield & Open Interest figures are for the previous day.

BASE LENDING RATES

	%		%		%
Adam & Company	6	Cyprus Popular Bank	6	Mount Banking	6
Allied Trust Bank	6	Duncan Lawrie	6	NatWestminster	6
AIB Bank	6	Equatorial Bank plc	6	Nykredit Mortgage Bnk	6.5
●Henry Ansbacher	6	Exeter Bank Limited	7	●Rea Brothers	6
B & C Merchant Bank	13	Financial & Gen Bank	7	Roxburghe Bank Ltd	6
Bank of Baroda	6	●Robert Fleming & Co	6	Royal Bk of Scotland	6
Banco Bilbao Vizcaya	6	Girobank	6	●Smith & Williamson Secs	6
Bank of Cyprus	6	●Guinness Mahon	6	Standard Chartered	6
Bank of Ireland	6	Habib Bank AG Zurich	6	TSB	6
Bank of India	6	●Hambros Bank	6	Unibank plc	6
Bank of Scotland	6	Heritable & Gen Inv Bk.	6	●United Bk of Kuwait	6
Barclays Bank	6	●Hill Samuel	6	Unity Trust Bank Plc	6
Brit Bk of Mid East	6	C. Hoare & Co	6	Western Trust	6
●Brown Shipley	6	Hongkong & Shanghai	6	Whiteaway Laidlaw	6
CL Bank Nederland	6	Julian Hodge Bank	6	Wimbledon & Sth West	7
Citibank NA	6	●Leopold Joseph & Sons	6	Yorkshire Bank	6
City Merchants Bank	6	Lloyds Bank	6		
Clydesdale Bank	6	Meghraj Bank Ltd	6		
The Co-operative Bank	6	McDonnell Douglas Bk.	6		
Coutts & Co	6	Midland Bank	6		
Credit Lyonnais	6				

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKETS

Euromarks retrace

THE bearishness towards the prospect of more interest rate cuts in Germany continued yesterday, although German interest rate futures reversed their recent trend and rallied slightly, *writes James Blitz.*

In recent days, the D-Mark's weakness in the wake of Denmark's ratification of the Maastricht treaty has made investors think that the the Bundesbank might not be so willing to cut interest rates.

UK clearing bank base lending rate 6 per cent from January 26, 1993

Comments from Mr Helmut Schlesinger, the Bundesbank President, and Mr Otmar Issing, the Bundesbank chief economist, have also underlined the new caution on German rates.

Both men yesterday raised new doubts about the pace of rate cutting, warning that such cuts could undermine confidence in the D-Mark.

There appears to be less certainty over when the Bundesbank will next cut official rates. One London-based dealer said yesterday that it was now fairly certain there would be no reduction in the discount rate at the next two Bundesbank council meetings. The repo rate is also unlikely to be cut in today's money market operation.

Call money was tight yesterday at 7.80 per cent due to end-of-month liquidity difficulties for banks. The Bundesbank would probably prefer to add extra funds through paragraph 17 rules or the Lombard rate, rather than the advantageous repo rate.

However, German interest rate futures enjoyed a mini-rally yesterday, partly as a result of a technical retracement following a week of heavy falls. The September Euromark contract rose 10 basis points from its previous close to finish at 93.52. The June contract continued to be traded far less heavily, and closed at 92.77, up four basis points on the day.

Sterling interest rate markets enjoyed a rally yesterday following continuing rumours that Mr John Major's cabinet might be reshuffled.

The September short sterling contract rose 10 basis points on the day to close at 94.16, while the June contract was up 4 basis points at 94.04.

In the sterling cash market, 3 month sterling cash was slightly firmer at 5 15/16 per cent yesterday, from a previous close of 5⅞ per cent. The Bank of England forecast a shortage of £650m, and the overnight rate of lending dropped to 3.50 per cent.

FT LONDON INTERBANK FIXING

(11.00 a.m. May 25)	3 months US dollars		6 months US Dollars	
	bid 3⅛	offer 3¼	bid 3 5/16	offer 3 7/16

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK

Lunchtime		Treasury Bills and Bonds			
Prime rate	6	One month	2.96	Three year	4.57
Broker loan rate	5	Two month	3.14	Five year	5.33
Fed.funds	3 1/16	Three month	3.12	Seven year	5.77
Fed.funds at intervention	-	Six month	3.28	10-year	6.14
		One year	3.50	30-year	6.98
		Two year	4.16		

May 25	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	7.75-7.85	7.60-7.70	7.45-7.55	7.35-7.45	7.00-7.15	8.50
Paris	7⅞-8	7¾-7⅞	-	7 3/16-7 1/16		7.50
Zurich	5-5¼	5⅛-5¼	-	5 3/16-5 1/16	-	-
Amsterdam	7.18-7.31	7.02-7.17	-	6.87-6.97	-	-
Tokyo	3 5/16-3 3/16	-	-	-	-	-
Milan	11-11⅛	11⅜-11⅝	-	10½-10⅝	-	-
Brussels	7⅜-7½	7⅜-7¼	-	7 3/16-7⅛	-	-
Dublin	7 5/16-7 3/16	7½-7⅜	7 5/16-7 3/16	7 5/16-7 3/16	7 3/16-7 1/16	-

LONDON MONEY RATES

May 25	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	5¼	5¾	5 13/16	6	6	6 3/16
Interbank Bid	4	5½	5 11/16	5⅞	5⅞	6 1/16
Sterling CDs	-	-	5 11/16	5⅞	5 13/16	6
Local Authority Deps.	5½	5½	5 11/16	5⅞	5 13/16	6 1/16
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps	5½	5⅜	-	-	-	-
Company Deposits	-	-	-	-	-	-
Finance House Deposits	-	-	-	-	-	-
Treasury Bills (Buy)	-	-	5 9/16	5 11/16	6	6⅛
Bank Bills (Buy)	-	-	5 9/16	5½	5½	-
Fine Trade Bills (Buy)	-	-	5 15/16	5 15/16	5 15/16	-
Dollar CDs	-	-	2.97	3.03	3.15	3.50
SDR Linked Dep. Offer	-	-	4 5/16	4⅝	4 5/16	4⅜
SDR Linked Dep. Bid	-	-	4 3/16	4½	4 3/16	4¼
ECU Linked Dep. Offer	-	-	7 13/16	7⅝	7 5/16	7⅛
ECU Linked Dep. Bid	-	-	7 11/16	7½	7 3/16	6⅞

Treasury Bills (sell): one-month 5⅜ per cent; three months 5 7/16 per cent; six months 5 9/16 per cent; Bank Bills (sell): one-month 5⅜ per cent; three months 5⅜ per cent; Treasury Bills; Average tender rate of discount 5.3346 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day April 30 ,1993 . Agreed rates for period May 26, 1993 to June 22 , 1993 Schemes II & III: 7.26 p.c. Reference rate for period April1, 1993 to April 30 , 1993, Scheme IV&V: 6.018 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 6½ from May 1 , 1993:Bank Deposit Rate for sums at 7 days notice 5⅛ p.c.:Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 2¾ p.c.; one-three months 5⅛ p.c.; three-six months 5 p.c.; six-nine months 4¾ p.c.; nine-twelve months 4½ p.c.; Under £100,000 2¾ p.c. from Jan.27, 1993. Deposits withdrawn for cash 1½p.c.

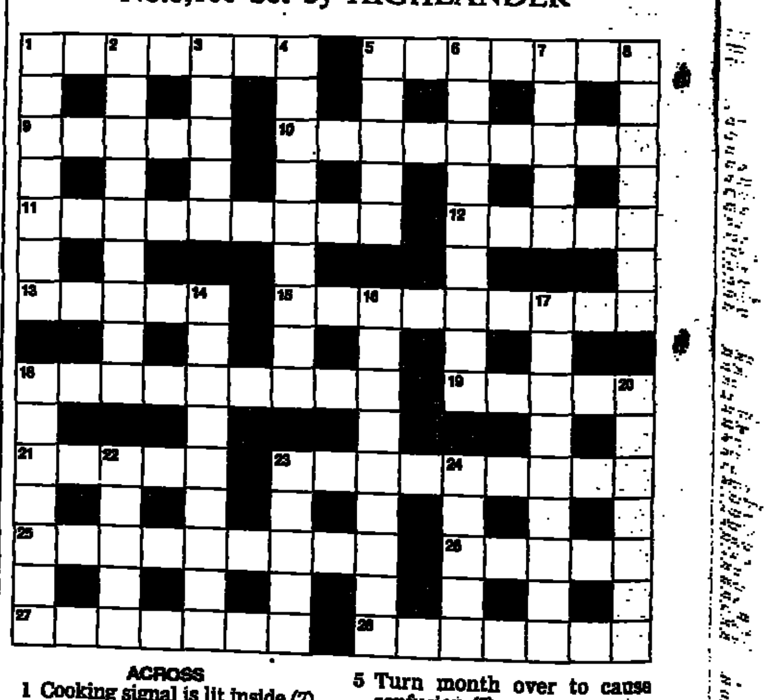
MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

CROSSWORD

No.8,160 Set by HIGHLANDER



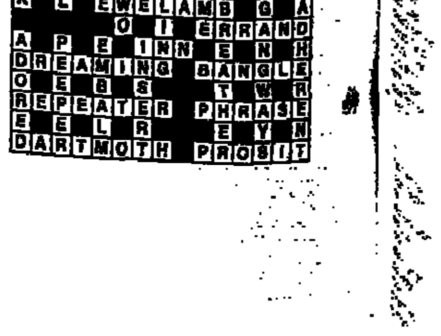
ACROSS

1 Cooking signal is lit inside (7)
5 It still hasn't been dealt with on second record (7)
9 It's understood when one goes into diplomacy (5)
10 Influence one by showing tenderness (9)
11 On the matter of watching (9)
12 Sounds like porridge plant (5)
13 Heath will be in US but not before midday (5)
15 A quiet place in resort for special equipment (9)
18 Surprise inspection for acne? (4,5)
19 The main mathematical relationship put in colour (5)
21 Name first-class state (5)
23 Collected wild animals from people on Silver Lake (9)
25 Criticise players and start to incite the crowd (9)
26 Ass brings 500 + 10 into it (5)
27 Tells in court where latest attack occurred (7)
28 Fought against being given a job (7)

DOWN

1 Take one hundred to Eire, organised as a group (7)
2 Not wanting to be spotted at sea, noticing nothing (9)
3 Season hasn't started for Bury (5)
4 Get rid of a generation with a heartless command (9)
5 Turn month over to cause confusion (5)
6 Informal friend put on formal coat for drinks (9)
7 Non-clerics make a song about it (5)
8 Italian water birds – round number (7)
14 Leading four top first record holder (9)
16 Wild pink geese from China (9)
17 If you see no standard score on card, carry on driving (2,7)
18 Is given lift and rushed round on motor cycle (7)
20 Gambled on answer being supported (7)
22 Girl bowled over by boy (5)
23 Intends to reveal income (5)
24 Leaving accepted speed for surface condition (5)

Solution to Puzzle No.8,159



WORLD STOCK MARKETS

AUSTRIA

May 25	Sch	+ or –
Austrian Airlines	1,525	–10
Creditanstalt Pf	538	+3
EA General	3,475	+5
EVN	828	+4
Lenzing	585	+3
OeMV	635	+8
Perlmooser Zement	940	–4
Radex Heraklith	297	–1
Reininghaus Brau	1,245	+5
Steyr Daimler	167	–1
Veitscher Magnesit	214	–2
Verbund (Br) A	477	+2
Vienna Int Airport	457	+7
Wienerberger	2,980	+24
Z–Laenderbank	985	—

BELGIUM/LUXEMBOURG

May 25	Frs.	+ or –
AG Group	2,490	–40
Ackermans	2,875	—
Almanij	6,860	–40
Arbed	2,910	+10
BBL	3,590	–10
Bank Intl a Lux	12,200	—
Banq Gen Lux Pts	17,350	—
Banque Nat Belg	34,000	–50
Bekaert	14,800	+75
CBR Ciment	6,390	–230
CMB	1,785	—
Cobepa	4,550	–50
Cockerill Priv	109	+2
Colruyt	5,980	–60
Delhaize Frs Lion	1,218	+8
Electrabel	5,800	–300
Electrabel AFV1	5,880	–330
Electrafina ACT	2,400	—
GBL	3,280	—
GBL AFV 1	3,160	—
GIB Group	1,228	–10
Generale Banque	7,840	—
Gevaert	6,870	+50
Glaverbel	3,100	–30
Immobel	2,785	—
Kredietbank	6,440	–60
Kredietbank AFV	6,390	–60
Mecaniver	5,710	—
Mosane	1,450	+10
Pan Holding Lux	13,350	—

FRANCE (continued)

May 25	Frs.	+ or –
BIC	1,065	+22
BSN	888	+18
BNP Cert Inv	561	+8
Bancaire Cie	472.30	+14.40
Bongrain	2,530xd	+92
Bouygues	653	+4
CGIP	1,070	+47
Canal+	1,277	+17
Cap Gemini S	171.80	+2.90
CarnaudMetalbox	185	+1.80
Carrefour	2,648	+28
Casino	137.90	+5.30
Chargeurs	1,016	+26
Club Mediterranee	354	+7.50
Cogifi	398	—
Coparex Int	551	—
C C F	240.90	+6.20
Cr Fonc France	1,012xd	+42.5
Cred Lyon (CI)	632	+11
Credit Local Fr	412.50	+14.50
Credit Nationale	1,329	–1
Dassault	3,650	–1
Docks de France	487.90	+13
Dollfus Mieg Cie	249	+8
EBF	880	+5
Eaux Cie Genl	2,210	+69
Ecco	448	+16
Elf Aquitaine	381.30	+7.30
Elf Aquitaine Certs	313.40	+8.40
Elf Sanofi	911	–3
Eridania B–Say	730	+13
Eridania B–Say Cl	588	+9
Essilor Int	441	+8
Elex	1,980	+90
Eurafrance	1,800	–40
Euro RSCG	487	+4
Euro Disney	70.80	–3.85
Fin Paribas	401	–39
Finextel	132	—
Fonc Lyonnaise	601	–31
Fromageries Bel	3,948	+13
GTM–Entrepose	430	+2
Gal. Lafayette	1,490	—
Gaumont (Soc N)	541	—
Geophysique	555	+5
Havas	432.40	+3.70
Imetal	403	+6
Imm de France	900	+10
Immobanque	792	+2
Immob Phenix	130	–.10

CANADA

INDICES

TOKYO - Most Active Stocks

Tuesday, May 25, 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Ricoh	8.5m	726	+20	Hitachi Zosen	4.6m	808	-1
Taiyo Fishery	6.1m	517	+17	NEC Corp	4.6m	1,020	-20
Nippon Steel	6.0m	400	+1	Tsumura & Co	4.5m	1,730	+140
Nippon Sheet Gls	5.9m	645	+14	Minebea	4.0m	697	+6
Mitsubishi Heavy	5.4m	721	-14	Sharp Corp	3.8m	1,310	+10

4 pm close May 25

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

- A -

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

[illegible]

- J -

[illegible]

- K -

[illegible]

- L -

[illegible]

- M -

[illegible]

- N -

[illegible]

- O -

[illegible]

- P - Q -

[illegible]

- R -

[illegible]

Continued on next page

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هكذا من الأصل

NYSE COMPOSITE PRICES

4 pm close May 25

Continued from previous page

- S -

[illegible]

- T -

[illegible]

- U -

[illegible]

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

[illegible]

Price data supplied by Telekurs

[illegible]

AMEX COMPOSITE PRICES

4 pm close May 25

[illegible]

NASDAQ NATIONAL MARKET

4 pm close May 25

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

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- V -

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- X - Y - Z -

[illegible]

AMERICA

Economic data fail to give buyers incentive

Wall Street

US PRICES were little changed in subdued trading yesterday as news of weakening consumer confidence offset another decline in bond yields, *writes Patrick Harverson in New York.*

At 1 pm the Dow Jones Industrial Average was up 7.19 at 3,514.97. The more broadly based Standard & Poor's 500 was 0.60 higher at 448.61, while the Amex composite was up 1.54 at 433.23, and the Nasdaq composite was 1.17 lower at 693.53. Trading volume on the NYSE was 130m shares by 1 pm.

For the second consecutive day business was light, with investors choosing to stay on the sidelines until a clearer picture of either the state of the economy, or the direction of monetary policy, emerges.

Uncertainty surrounding President Bill Clinton's economic plan, which goes to the vote in the House of Representatives tomorrow, also frightened some investors away.

News on the economy failed to provide any incentive to buy stocks yesterday. Although there was positive news, in the form of a 2.7 per cent rise in April existing home sales, there was also some bad economic news as the Conference Board announced that its index of consumer confidence fell to 61.5 in May, down from 67.7 in April. The decline was much larger than analysts expected, and took the index to its lowest level in six months.

Although the latter data depressed market sentiment, another rise in bond prices, which pushed the yield on the benchmark 30-year issue down below 7 per cent, ensured that stocks stayed mostly in positive territory.

Amax jumped $4⅝ to $22⅞ in volume of 2m shares on reports that the company will merge with Cyprus Minerals to form a new group with assets of about $5bn and combined revenues of $2.8bn. This did not encourage investors in Cyprus Minerals, which fell $⅝ to $27¼.

First Chicago climbed $1⅛ to $38⅝ after Warburg Securities upgraded its rating on the banking group's stock from a "hold" to a "buy". Other banks were also firmer as fears of a rise in interest rates receded. Citicorp rose $¼ to $28, Chemical put on $½ at $37⅞ and Chase Manhattan added $⅞ at $30.

Wal-Mart firmed $¼ to $28⅝ in busy trading after the retailing group launched a $1bn issue of new debt securities. The issue is Wal-Mart's second big cash-raising exercise this year: in late February it sold $750m of five-year and 10-year notes.

On the Nasdaq market, Dell Computer plummeted $7⅛, or more than 20 per cent, to $25 in volume of almost 10m shares after the company reported a sharp drop in first quarter net income to 25 cents a share.

Canada

TORONTO was firm in anticipation of an interest rate cut, but gains of 1 per cent or more in financial services, metals and minerals and industrial products were trimmed back by a near 2 per cent drop in the gold and silver index.

At midday, the TSE-300 composite index was up 13.13 at 3,849.12.

Among active stocks, Mitel, Nova and Canadian Pacific were up 40 cents at C$4.15, C$⅛ higher at C$9½ and C$⅛ at C$21⅛.

But in the mining and oils section, American Barrick was off C$⅝ at C$28⅜.

SOUTH AFRICA

GOLD shares weakened in spite of a late rise in the bullion price, and the index finished down 29 at 1,856. Industrials slipped 8 to 4,518 and the overall index 23 to 4,009. De Beers receded R1.50 to R82 and Anglos R1 to R143.50.

EUROPE

Paris climbs further on government plan

MOST bourses closed higher yesterday, *writes Our Markets Staff.*

PARIS reacted positively to the government's plan to issue a bond which holders will be able to convert into shares of newly-privatised companies. The money raised, estimated at some FFr40bn, will be used to finance spending on infrastructure projects and other job-creation schemes.

The CAC-40 index put on 29.72 or 1.6 per cent to 1,891.09 in turnover of FFr2.6bn. Mr Andrew Shepherd-Barron, French analyst at Kleinwort Benson, said that the scheme seemed to be "very imaginative" in that it sought to make it attractive for funds to come into the equity market in the gentlest possible manner, while also answering critics of the budget in doing something to stimulate the economy.

L'Oreal was one of the few stocks to go against the trend on the day, falling FFr15 to FFr1,032 after Gesparal, the holding company, said that it was to offer ordinary shares in exchange for the L'Oreal investment and voting right certificates held by other investors.

MADRID was encouraged by the Bank of Spain's interest rate reduction. There was general strength in construction stocks and some individual features in banks as the general index closed 2.23 higher at 258.90, turnover rising from Pta16.5bn to Pta25.2bn.

FRANKFURT's bond and equity markets staged a technical recovery in the morning, the Bundesbank's average bond yield falling 4 basis points to 6.68 per cent and the DAX index recovering 15.09 to 1,618.18. German equity market turnover eased from DM4.7bn to DM4.5bn.

However, dealers on both sides had more to talk about in the afternoon as North Rhine-Westphalia, the country's largest state, came in with a better than expected inflation rate of 3.9 per cent over the twelve months to mid-May. Bonds picked up further, and leading German equities did likewise in London trading.

The afternoon gains, however, were not across the board. Continental came out with a warrant bond and the underlying shares, DM2.10 higher at DM198.60 at the official close, dropped to DM191 in the Frankfurt post-bourse.

AMSTERDAM remained strong in Unilever, up Fl 3.20 at Fl 195.70, but within the same sector Nutricia fell back sharply on news that it was to recall one of its brands of baby food from four US states because of possible salmonella contamination. The shares fell to a day's low of Fl 114.50 before recovering slightly to close off Fl 4.80 at Fl 117.20.

The CBS Tendency index put on 1.0 to 106.1.

Philips picked up 50 cents to Fl 27.60 news that rival manufacturers might agree on a common standard for HDTV in the US.

BRUSSELS saw several big blue chips go ex-dividend, including Electrabel, CBR, Société Générale de Belgique and Petrofina. Dealers said that this was the main reason why the Bel-20 index fell, against the general trend, by 13.72 to 1,190.93.

The chemicals group, Solvay, fell BFr300 to BFr11,400 in higher than usual volume of 13,600 shares. On Monday, it said that it will close around 10 per cent of its soda ash production.

MILAN registered a sharp fall in Fiat on reports that Mr Cesare Romiti, the managing director and chief executive, was to be investigated in connection with the country's corruption scandal. The shares were down L29 to L6,546 at the fix before slipping further to L6,400 on the kerb.

The Comit index, however, managed a rise of 1.31 to 558.55.

There was some interest in Montedison, which put on L17 to L1,187, encouraged by recent first quarter results, while Ferruzi gained L23 to L1,124 and Fondiaria improved on Monday's rise to close up L700 at L31,400. The latter stock is being assisted by renewed speculation that Ferruzi might sell either some of Fondiaria's assets or the insurance group as a whole.

OSLO fell in a technical reaction to recent strength, gaining little support from a new cut in the central bank's overnight lending rate. The all-share index ended 4.15 lower at 470.76 in moderate turnover.

ISTANBUL accelerated on selective buying of electricity companies, carmakers and communications groups, the market index closing 192.43 higher at 8,201.19 for a three-day gain of 3.6 per cent. Turnover was estimated to have risen from TL542.5bn to between TL650bn and TL700bn.

WARSAW's bourse suspended trading in three stocks on account of buying pressure, and scaled down buy orders for five others because of insufficient supply.

Prices of 13 out of 17 stocks hit all-time highs and the WIG all-share index rose 259, or 8.1 per cent to another record of 3,463.1. Turnover was 168bn zloty.

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

May 25 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1162.05	1163.89	1164.19	1163.80	1164.08	1164.05	1164.81	1164.13
FT-SE Eurotrack 200	1223.23	1223.99	1224.76	1225.78	1225.89	1225.16	1226.06	1224.18

	May 24	May 21	May 20	May 19	May 18
FT-SE Eurotrack 100	1156.98	1155.78	1156.03	1147.97	1152.98
FT-SE Eurotrack 200	1217.42	1215.46	1220.19	1212.27	1217.75

Base value 1000 (26/10/90) High/day: 100 - 1165.98; 200 - 1227.38 Low/day: 100 - 1162.06 200 - 1223.23.

ASIA PACIFIC

Tokyo, Hong Kong and NZ make headway

Tokyo

A RALLY in the futures market triggered by a lower than expected earnings decline for Nippon Telegraph and Telephone pushed the Nikkei average moderately higher, *writes Wayne Aponte in Tokyo.*

The 225-issue average gained 155.60 at 20,631.76, after reaching a session peak of 20,730.75 and low of 20,482.58. The Topix index of all first section stocks put on 7.60 at 1,618.29, and in London the ISE/Nikkei 50 index was 0.80 up at 1,243.88.

Volume came to 450m shares, compared to Monday's 414m. Advances led declines by 667 to 361, with 155 issues unchanged.

NTT, the country's largest telecommunications group, announced a 29.5 per cent fall in pre-tax profits for 1992.

But brokers said investors, who had expected a greater drop in earnings for the last financial year, were encouraged to place buy orders. The shares finished Y13,000 higher at Y998,000.

Some technical analysts said the Nikkei should stay within a narrow range in the short term, encountering strong resistance at the 21,000 level. The main reason for this, they added, was because overseas investors have become net sellers, arbitrage sales have increased recently and fresh incentives are scant.

Securities house dealers and individual investors are recognised as the primary buyers in the market, some brokers said, while financial institutions, life insurance companies and domestic corporations are still cautious about equity investment.

Ricoh, a leading office automation equipment maker, and the day's most active issue, rose Y20 to Y762. Brokers said the company continues to attract interest after forecasting an increase of 61 per cent in pre-tax profits for the current fiscal year due to restructuring.

Unicharm, a leading manufacturer of sanitary napkins and paper diapers, climbed Y70 to Y2,550 on good earnings.

Some banking issues moved into positive territory: Mitsubishi Bank advanced Y40 to Y2,580, Sumitomo Bank Y40 to Y2,070 and Sakura Bank Y20 to Y1,520.

The shipbuilding sector fell on light profit-taking. Mitsui Engineering and Shipbuilding lost Y12 to Y465, Mitsubishi Heavy Industry Y14 to Y721 and Kawasaki Heavy Industries Y2 to Y462.

In Osaka, the OSE average appreciated 66.75 to 22,811.32 in volume of 25m shares.

Roundup

RECORD HIGHS were registered in Hong Kong and New Zealand.

HONG KONG's Hang Seng index climbed a further 91.79 to 7,368.18, up 35.5 per cent since its 1993 low of January 4. It hit the new high on news of a US-recommended, unconditional renewal of China's Most Favoured Nation (MFN) status, tied to improvements in human rights in 1994.

Turnover expanded from HK$4.89bn to HK$5.76bn.

Hong Kong Telecom and Hutchison Whampoa led the gainers, rising 40 and 60 cents to HK$11.90 and HK$22.50 respectively.

The MFN news encouraged buying of industrial and trade related stocks, with Yue Yuen Industrial gaining 13 cents at HK$1.91.

NEW ZEALAND topped Monday's previous peak on the strength of the domestic dollar, the NZSE-40 index closing 9.36 higher at 1,637.62 in turnover of NZ$33m.

Brokers said that the main action was in the better class second-liners but, among the leaders, Carter Holt Harvey rose 2 cents to NZ$3.00 ahead of Friday's results and Fletcher Challenge moved forward 6 cents to NZ$2.71.

AUSTRALIA saw industrial and finance stocks improve, while interest in gold shares weakened. The All Ordinaries index advanced 11.9 to 1,697.4 in turnover of A$293m.

National Australia Bank was the star performer in the banking sector, rising 16 cents to A$9.85 after higher earnings last week.

SINGAPORE and KUALA LUMPUR were mixed, the former registering a 5.59 gain to 1,860.74 in the Straits Times Industrial index and the latter, similarly, putting on 6.89 to 731.37 in the KLSE composite, while the broader industrial index slipped 1.94 to 1,266.20.

MANILA's composite index advanced 14.93 to 1592.64, turnover rising from 108.7m pesos to 148.4m pesos.

SEOUL tumbled after seven consecutive days of gains, its composite index ending 6.64 lower at 727.27 as volume sagged from 49m to 40.2m shares, while TAIWAN saw the weighted index weakening 31.87 to 4,227.05.

BOMBAY lost further ground following the exchange's decision to ease restrictions on short selling.

The BSE index closed 53.72 down at the day's lowest level of 2,285.62.

Shenzhen seeks a sharper image to attract investors

Tony Walker on equity market regulatory reforms

The Shenzhen market, similar to China's other fledgling stock market in Shanghai, has proved extremely volatile recently, sliding by about 7 per cent in the first week of May.

Prospects of tighter supervision over the Shenzhen exchange under new national regulations, and a growing belief among foreign investors that Chinese investments are best made through Hong Kong-listed companies, are among factors taking the gloss off the local markets.

Located in one of China's pioneering special economic zones, Shenzhen has experienced dramatic ups and downs since formal operations began on July 3, 1991, including riots last August when investors engaged in an unseemly scramble for new issues.

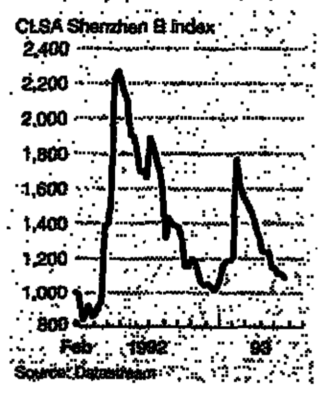
Ms Chao Xia, an exchange official, says that in spite of a rocky start the exchange is continuing to expand with a steady build-up of new listings. Ambitious plans are also in hand for a new stock exchange complex, combining not only equities trading, but also commodities and futures.

Some 33 companies are listed on Shenzhen's A-share local currency market, which is open to Chinese investors, while nine companies, restricted to foreign investors, comprise the B-index. The market also encompasses bond trading.

According to Ms Chao, market capitalisation of both A and B shares combined had reached Rmb64bn ($11.2bn) by the first quarter of this year, compared with Rmb44bn at the end of 1992. Turnover on both markets reached Rmb24bn in the first three months.

Some 250 brokers are registered with the Shenzhen exchange. The trading floor can seat 210, but less than 80 brokerage houses are active at this stage. Ms Chao says that, like Shanghai, plans are under way to allow foreign brokers to be represented directly.

On the sensitive issue of whether Shenzhen feels something like a poor relation compared with the much larger Shanghai bourse, Ms Chao says it is "policy" not to make comments on each other.



But she does observe that Shenzhen is intent on developing a market with its own "characteristics", by which she means that the exchange will provide a focus for companies in southern China, including those on Hainan island, which itself is undergoing a development boom. There are no plans, she says, for cross-listings between the two.

She attributed Shenzhen's rather sluggish B-share market performance to the fact that investors were awaiting the listing on the Hong Kong market of a number of mainland companies, including Qingdao Brewery and Shanghai Petrochemical.

Ms Chao also indicates that Shenzhen has learned its lesson from last August's riots, when it sought to list a number of companies, all in one day, under a lottery scheme which was open to manipulation by unscrupulous local officials.

That episode pushed Beijing into belated efforts to enhance its regulatory capabilities. Last October the state council, or "cabinet", announced the establishment of a securities policy committee and a securities regulatory commission to advise on securities-related matters.

Both bodies have been advising a special securities law-drafting committee, which recently circulated a proposed law covering the gamut of equity securities issues, from insider trading to the operations of futures markets and the establishment of securities companies and investment funds.

Sensitive, perhaps, to the prospect of national regulation, the Shenzhen city government recently set up its own supervisory body. To be headed by Mr Li Youwei, the mayor, the agency will draft laws, codes and rules for the stock market, an announcement said.

One of its tasks will be to bolster confidence and help eradicate erratic price fluctuations which appear to be unconnected with the health or otherwise of companies themselves or of the local economy.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY MAY 24 1993								FRIDAY MAY 21 1993					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1993 High	1993 Low	Year ago (approx)
Australia (68)	133.02	−1.2	128.48	92.74	113.18	128.20	−0.7	3.86	134.69	129.55	94.00	113.97	129.05	144.19	117.39	152.42
Austria (18)	140.14	−1.8	135.35	97.71	119.23	119.08	−1.2	1.72	142.71	137.26	99.59	120.75	120.49	150.96	131.16	168.77
Belgium (42)	144.51	−1.2	139.57	100.75	122.95	119.92	−0.5	4.74	146.32	140.73	102.10	123.80	120.52	156.76	131.19	141.28
Canada (108)	129.11	+0.4	124.71	90.02	109.84	117.99	+0.0	2.80	128.60	123.69	89.74	108.81	117.99	129.11	111.41	126.85
Denmark (33)	218.18	−1.1	210.73	152.12	185.63	185.84	−0.6	1.22	220.63	212.20	153.97	186.68	186.87	225.64	185.11	239.19
Finland (23)	100.21	−0.7	96.79	69.87	85.26	116.24	+0.3	1.06	100.92	97.06	70.43	85.39	115.90	100.92	65.50	79.53
France (98)	151.75	+0.5	146.57	105.80	129.10	131.16	+1.2	3.42	150.95	145.18	105.33	127.71	129.64	167.36	142.72	166.12
Germany (62)	108.17	−1.0	104.47	75.43	92.03	92.03	−0.4	2.30	109.22	105.05	76.23	92.41	92.41	117.10	101.59	124.21
Hong Kong (55)	295.17	+1.6	285.09	205.80	251.15	292.80	+1.5	3.18	290.62	279.51	202.81	245.91	288.34	295.17	218.82	249.49
Ireland (15)	157.20	−1.4	151.84	109.61	133.75	148.21	−0.8	3.58	159.39	153.30	111.23	134.86	149.38	170.40	129.28	159.20
Italy (73)	71.78	−0.5	69.33	50.05	61.07	79.61	−0.1	2.41	72.15	69.39	50.34	61.04	79.66	72.82	53.78	72.01
Japan (470)	144.55	−0.1	139.61	100.78	123.00	100.78	−0.2	0.83	144.74	139.21	101.01	122.48	101.01	146.85	100.75	105.03
Malaysia (69)	336.77	−0.5	325.27	234.79	286.52	332.81	−0.4	2.03	338.39	325.46	236.14	286.31	334.15	343.04	251.66	236.10
Mexico (18)	1503.52	−1.1	1452.19	1048.29	1279.22	5133.82	−0.6	1.32	1519.84	1461.76	1060.63	1285.99	5162.96	1725.81	1410.30	1620.27
Netherland (24)	164.14	+0.0	158.54	114.45	139.66	137.21	+0.4	4.03	164.18	157.90	114.57	138.92	136.84	172.75	150.39	159.16
New Zealand (13)	49.05	+0.1	47.38	34.20	41.74	47.93	+0.3	4.77	49.01	47.14	34.21	41.47	47.79	49.32	40.56	46.65
Norway (22)	156.55	−1.0	151.21	109.15	133.20	146.83	−0.4	1.80	158.11	152.07	110.34	133.79	147.38	166.21	137.71	186.11
Singapore (38)	251.87	−0.4	243.27	175.61	214.29	187.45	−0.4	1.84	252.90	243.23	176.49	213.98	188.27	254.49	207.04	216.21
South Africa (60)	201.01	+1.8	194.14	140.14	171.01	203.85	+1.6	2.47	197.46	189.92	137.80	167.07	200.69	201.01	144.72	243.70
Spain (46)	128.15	−0.6	123.77	89.35	109.03	121.01	+0.0	4.93	128.86	123.94	89.93	109.03	121.00	132.82	115.23	158.04
Sweden (36)	178.99	−0.7	172.88	124.80	152.29	193.44	−0.6	1.75	180.25	173.36	125.79	152.52	194.59	180.25	149.70	198.74
Switzerland (55)	122.92	+0.3	118.72	85.71	104.59	112.10	+0.2	1.94	122.57	117.89	85.54	103.73	111.90	123.58	108.91	105.22
United Kingdom (218)	176.25	+0.0	170.23	122.88	149.94	170.23	+0.4	4.04	176.24	169.50	122.98	149.11	169.50	181.99	162.00	196.48
USA (519)	183.05	+0.4	176.80	127.63	155.75	183.05	+0.4	2.79	182.26	175.29	127.19	154.22	182.26	186.27	175.38	168.84
Europe (765)	143.92	−0.2	139.01	100.35	122.48	132.30	+0.3	3.37	144.18	138.67	100.62	122.00	131.96	149.02	133.92	155.78
Nordic (114)	168.53	−0.8	162.78	117.51	143.39	161.40	−0.5	1.55	169.92	163.42	118.58	143.77	162.17	169.92	142.13	182.49
Pacific Basin (713)	148.60	−0.1	143.53	103.61	126.44	107.33	−0.2	1.11	148.74	143.06	103.80	125.86	107.49	150.03	105.89	111.30
Euro-Pacific (1478)	146.57	−0.1	141.57	102.18	124.70	118.10	+0.0	2.01	146.76	141.15	102.41	124.17	118.09	148.94	117.26	129.32
North America (628)	179.69	+0.4	173.55	125.30	152.91	178.62	+0.4	2.79	178.91	172.07	124.87	151.41	177.88	182.38	171.51	166.21
Europe Ex. UK (547)	124.01	−0.3	119.78	86.48	105.54	110.89	+0.1	2.90	124.40	119.64	86.83	105.28	110.74	128.65	112.51	130.46
Pacific Ex. Japan (243)	188.75	+0.2	182.30	131.62	160.61	173.29	+0.4	3.15	188.44	181.24	131.52	159.46	172.68	188.75	152.70	173.12
World Ex. US (1665)	147.36	−0.1	142.33	102.75	125.38	120.27	+0.0	2.04	147.50	141.86	102.94	124.81	120.23	149.39	118.51	131.46
World Ex. UK (1966)	156.60	+0.1	151.25	109.19	133.25	136.54	+0.2	2.15	156.41	150.43	109.16	132.35	136.32	157.19	134.22	137.85
World Ex. So. Af. (2124)	158.14	+0.1	152.74	110.27	134.56	139.12	+0.2	2.33	157.99	151.96	110.27	133.69	138.88	158.98	137.29	142.41
World Ex. Japan (1714)	167.48	+0.2	161.77	116.79	142.52	161.22	+0.4	2.99	167.12	160.73	116.64	141.43	160.63	168.56	157.47	164.46
The World Index (2184)	158.34	+0.1	152.93	110.40	134.72	139.66	+0.2	2.33	158.16	152.12	110.38	133.83	139.40	159.07	137.32	143.07

Constituent change with effect 26/5/93: Deletion: Minnova (Canada). Latest prices were unavailable for this edition. Canadian market closed May 24.

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FINANCIAL TIMES SURVEY

FOREIGN EXCHANGE

SECTION III

Wednesday May 26 1993

Speculators' enthusiasm for attacking currencies may be dimmed, but fears for the future remain, warns **Peter Norman**. Events of the past year show how sound economic policies and internationally compatible interest rates are a necessary, but not sufficient, condition for currency stability.

Getting their breath back

GLOBAL FOREIGN exchange markets have gone through their most turbulent 12 months since the collapse of the Bretton Woods fixed exchange rate system in the early 1970s.

The European exchange rate mechanism has been in almost continual crisis since September, with the latest aftershocks to the original eruption forcing devaluations of the Spanish peseta and Portuguese escudo earlier this month. Unprecedented cross-border flows have forced sterling and the Italian lira to quit the system and necessitated three devaluations of the peseta, two of the escudo and one of the Irish punt.

Never has central bank intervention been so large scale or ineffective in trying to control currency markets. Policy-makers and foreign exchange market players are still coming to terms with the past eight months' events.

Clearly, special factors exacerbated the original ERM crisis. But in many ways, the foreign exchange markets were ripe for turmoil.

What was already the world's most liquid market had undergone wide-ranging changes in the previous five years. Global foreign exchange turnover grew rapidly with the liberalisation of cross-border financial flows. This rapid expansion was spurred by the spread and increased sophistication of technology that reduced transaction costs. At the same time, investment decisions were increasingly concentrated in the hands of professional fund managers.

Net turnover in the three largest markets (London, New York and Tokyo) is estimated to have increased threefold in the past six years: a rate of growth far exceeding that of world trade or international investment business. Market surveys conducted by the Bank of England, the Federal Reserve Bank of New York and the Bank of Japan suggest that global net turnover now approaches $1,000bn a day – a sum dwarfing the estimated $550bn of currency reserves held by the industrialised countries.

The nature of trading has also changed, making developments less predictable for policy-makers. Trading of derivative securities has expanded rapidly. In Britain, for example, spot transactions accounted for only 50 per cent of gross turnover in 1992, compared with 73 per cent in 1986. Trading in forwards and swaps increased from 27 per cent of gross turnover in 1986 to 47 per cent last year.

Into this volatile mix have come new players, bringing added muscle and new attitudes to currency trading.

For years, foreign exchange markets were dominated by the large international banks, the securities houses, corporate treasurers and central banks.

These long-established participants have since been joined by institutional investors, such as pension funds, mutual funds and insurance companies, and the US-based hedge funds. The hedge funds – made famous overnight by the ability of Mr George Soros's Quantum Fund to make $1bn from sterling's devaluation since Wednesday September 16 – have proved to be especially potent. They are largely unregulated, because they are usually incorporated in offshore locations, and operate primarily by taking highly leveraged, speculative positions.

If the hedge funds are the shock troops of the new generation of speculators, the pension funds are the heavy artillery. A recent study by the International Monetary Fund cited estimates that the cross-border assets of the world's leading pension funds could be as high as $880bn by the middle of this decade. Already some of this potentially mobile money is being actively invested in speculative ventures. Hedge fund managers in New York say that traditionally cautious institutions are entrusting them with a small portion of their assets in the hope of big gains.

In this volatile climate, the ERM countries paid heavily for failing to agree a timely adjustment of their parities in response to the exceptional inflationary pressures unleashed by German unification.

The Danish No vote in the June 1992 referendum on Maastricht exposed the fragility of so-called convergence plays, in which investors had piled into high yielding, fundamentally weak ERM currencies such as the peseta, lira and British pound, in the belief that they would not be devalued in the approach to economic and monetary union in Europe.

France's decision to hold a referendum on Maastricht on September 20, gave the markets a firm date to speculate against.

Italy's 7 per cent lira devaluation of early September poured fuel on the glowing embers, because it was the first ERM devaluation in many years to exceed the system's pre-set margins of fluctuation and so reward the speculator.

Reports late on Tuesday September 15 that Mr Helmut Schlesinger, the Bundesbank president, was dissatisfied because sterling had not devalued further fanned the flames. Although eventually denied, they made the crisis unstoppable.

The September crisis produced massive windfall profits for many banks and financial institutions at the expense of the industrial world's central banks. Although there were some losers – Bank Negara, the Malaysian central bank, is thought to have lost heavily by backing sterling, and to have sharply reduced its speculative forays into the market – there were far more winners.

These developments have presented the world's monetary and regulatory authorities with a serious headache. And careful examination of the events leading up to and beyond last September, by experts in the IMF, the Group of 10 leading industrial countries, as well as by the European Community monetary committee and the EC committee of central bank governors, have produced no magic formula for avoiding future mishap.

At European level, there is now a rift between those who acknowledge the need for greater exchange-rate flexibility and those who want to accelerate the drive to economic and monetary union as a way of pre-empting further speculative attacks.

The one unanimous conclusion is that the enhanced volatility of the markets cannot, and should not, be countered by the re-introduction of exchange controls. Such action is considered to be folly in an increasingly interdependent world economy.

Central bank intervention is no longer a sufficiently potent weapon to deter speculative flows. Net sales of D-marks by European central banks totalled DM284bn in the second half of 1992. But this massive deployment of currency reserves and central bank borrowings was unable to prevent the devaluation or floating of the Finnish, Swedish, Norwegian, Italian, British, Irish, Spanish and Portuguese currencies.

True, the successful defence of the French franc by the Bundesbank and Banque de France showed that large scale intervention can work, provided the markets are convinced of the determination of the monetary authorities involved and the credibility of the economic policies they represent. But victory was costly for France, involving increases in interest rates that damaged the country's government, economy and banks.

The past year's events show how sound economic policies and internationally compatible interest rates are a necessary, but not sufficient, condition for currency stability.

The speculators' enthusiasm for attacking currencies may yet be dimmed by closer international co-operation and more timely adjustments of exchange rates.

But fears for the future remain, because the power of the investment community to overcome defenders of exchange rates will increase in the years ahead as cross-border investments grow and capital markets become more integrated.

The foreign exchange markets are likely to remain potentially volatile, at least until the world's monetary authorities have demonstrated an ability to impose crippling losses on one of the new generation of players.

IN THIS SURVEY

Can Emu be made to fly?

A CENTRAL question facing policy-makers is how the plans for European monetary union can regain credibility, with national economies diverging, rather than converging. To an extent, the answer depends on the fate of the Maastricht treaty, the prospects of which are brightened by Denmark's Yes vote. Page 2

ALSO

Monetary union is threatened by diverging European economies, says **Lionel Barber**

Can the politicians make Emu fly?

A SPECTRE is haunting the European Community, the spectre of the 1930s. Rising unemployment, a deeper-than-expected recession and a resurgence of "go-it-alone" national economic policies have cast doubt on EC plans for European Monetary Union.

What once seemed a logical progression from the successful project to create a Single European Market by 1992 now looks questionable. European economies are diverging, not converging. The recent realignments by Spain and Portugal, on the very day that the Bank of France made its sixth interest-rate cut since the election of a new government, underlined the emergence of a two-tier monetary Europe.

Mr Jacques Delors, European Commission president, frets that such competitive devaluations will destroy the single market and sew mistrust among member states. He is also worried that the UK economic recovery, based on a floating exchange rate, may tempt other EC members states to pursue economic growth outside the constraints of the exchange rate mechanism, the designated vehicle for Emu.

The central question facing policy-makers is how the Emu project can regain credibility. To an extent, the answer depends on the fate of the Maastricht treaty, of which the plans for monetary union were by far the most important.

Mr Henning Christophersen, the jovial Danish EC economics commissioner, likes to point out that, once the Maastricht treaty is ratified, confidence in Emu will return. According to his analysis, the Danish Yes vote in the second referendum on Maastricht should speed up ratification in the UK, restoring stability to the financial markets and making it probable that a majority of the Twelve would elect to proceed to Emu in 1997, in line with Maastricht.

The trouble with this analysis is that it blames all of Emu's troubles on the original Danish rejection of the Maastricht treaty in their first referendum. Yet several high-level inquiries into the recent upheavals in the ERM make clear that economics, just as much as politics, was largely to blame.

As a recent report by the International Monetary Fund noted: "Actual achievements in convergence among the ERM countries – although significant – were neither durable nor deep enough to justify assuming complete fixity of exchange rates.

"Losses of competitiveness, large fiscal deficits not yet under control, weaknesses in financial sectors, sharp cyclical differences, and divergent mixes of monetary and fiscal policies (in the wake of German unification) were each vulnerable elements."

Much criticism has been heaped on the Bundesbank for pursuing unnecessarily high interest-rate policies, to the detriment of the rest of Europe. Germany's national priorities clashed with her (nascent) international obligations. The need to control inflation, because of the Bonn government's decision to borrow to finance German unification, clashed with the need to defend at all costs parities in the ERM.

Yet the Bundesbank has a strong case for arguing that other ERM countries failed to make timely currency adjustments before last September. The absence of realignments after January 1987 led to currency rates becoming out of line with economic performance. Maintaining parity became a virility symbol, all the more so as weaker, higher-yielding currencies such as the Spanish peseta became repositories for huge amounts of "hot" money.

According to a central banker involved in drafting the report on the ERM crisis last autumn, an estimated $200bn to $300bn was held in these weaker currencies. Once they came under attack, it became impossible for the central banks to maintain the parities. The ERM, which by habit had become a fixed exchange rate mechanism, reverted to its original semi-fixed, adjustable form. Hence, the monetary authorities' conclusion that the ERM does not need fundamental reform.

The British government disagrees. Yet its contention that there are "fault-lines" in the ERM has one flaw: it has not put forward any blueprints for reform. Meanwhile, the "hard core" ERM currencies – the German mark, French franc, Belgian franc, Dutch guilder, and Luxembourg franc – have survived with their rates intact.

The two battles to save the franc were seminal events, leading to even closer co-operation and a sense of solidarity between the French and German authorities. The single most important result was the election of a pro-EC government in the French parliamentary elections. The French political élite closed ranks, and the advocates of a floating franc were reduced to silence.

Yet the franc may only have gained a stay of execution. The nagging concern among Emu enthusiasts is whether the strategy of maintaining the ERM for four to six years before the full transition to Emu is merely an open invitation to speculators.

According to a report by the Commissariat Du Plan – the semi-official think-tank in Paris – one idea would be to form a "monetary Schengen". This would draw on the name of the group of hard-core EC countries which agreed to dismantle their frontiers before other members were ready.

Among the suggestions are: a formal commitment to ERM central rates and a possible reduction in the fluctuation margins from 2¼ to 1 per cent; all central banks to hold reserves denominated in the currencies of partner countries; stronger mutual support mechanisms for intramarginal intervention; and central bank independence (a subject taken up with alacrity by the new French government).

A Danish No would have forced both France and Germany to consider these moves as a statement to the financial markets that they are still serious about Emu. But in the light of the Yes response, EC economies will have to show more convergence. Emu enthusiasts suggest that the pressure for monetary union is so overwhelming that the strict "convergence criteria" will be simply fudged in 1996. But the Bundesbank has other ideas: and so may Chancellor Helmut Kohl.

James Blitz explains how new players are curbing central bankers' joy

Fund managers flex their muscles

AFTER MONTHS of turmoil on the currency markets, this ought to have been a time of celebration for the world's central bankers.

The pressures inside the European exchange rate mechanism have eased. Germany has cut its short-term interest rates, reducing the pressure on Europe's recession-hit economies. And the French franc appears to have finally shaken off numerous speculative attacks against it.

But celebration is far from being the order of the day. For central banks and governments are becoming increasingly concerned about the acute structural changes in the nature of foreign exchange dealing. And, in particular, there is increasing discussion of how a powerful new group of players – the pension funds and the US hedge funds – are dominating this market, and overwhelming the power of governments to control exchange rate movements through market intervention.

Until a few years ago, international currency dealing was dominated by commercial banks making markets in foreign exchange off the back of trade flows.

But in the last four years, fund managers in the non-banking sector have become the prime movers of capital, with the power to shift sums vastly in excess of the reserves of central banks and governments.

These institutions are the most important players in the foreign currency market today, because of the international diversification of their asset portfolios in the late 1980s.

The liberalisation of cross-border financial flows and the reduction of national capital controls in recent years has encouraged fund managers to invest in overseas assets. The declining level of US interest rates has also forced major American investors to look abroad for higher returns.

That quest for overseas returns has been intense. In its recent report on capital flows*, the International Monetary Fund stated that cross-border equity holdings in the US, Europe and Japan increased from $800bn in 1986 to $1,300bn in 1991. European institutions now invest about 20 per cent of their assets abroad, while foreign investments of US and Japanese institutions generally range between 5 and 7 per cent.

One result of this internationalisation of assets was to increase foreign currency turnover to levels that dwarf the reserves of the central banks. Net daily foreign exchange turnover last year was about $1,000bn, compared with central bank reserves of $555.6bn in April 1992.

But the critical point about these funds is not just that they move capital in huge sizes. Instead, the *methods* by which each of these types of fund operates threatens to make exchange rate movements more volatile in future.

The US hedge funds are the most notorious of the new players. Their star performer is Mr George Soros, who claims that his Quantum Fund broke the pound on Black Wednesday and forced its exit from the ERM.

Other well-known hedge fund managers in the US include Mr Paul Tudor-Jones, the Caxton fund and Mr Andy Krieger of Capital Holdings.

According to the IMF report, each of these funds has less than $10bn under management. But they use their capital to indulge in highly leveraged positions – or margin trading – giving them formidable power in the market.

The essence of margin trading is that a fund provides a certain sum in collateral to a commercial bank, which then allows the fund to take positions in the market which could be up to 10 times greater than the amount deposited.

If profits are made, the bank passes them on to the fund's account. If the fund starts to lose, however, the bank will "close out" its position and annex the deposit when it equals the net losses.

The power of leverage is consolidated by the fact that the hedge funds take positions which are very short-term, highly aggressive and often directed at smaller markets where intense buying and selling can affect exchange rates.

"Their basic principle is that a million lemmings can't be wrong," said one investment banker. "If the peseta is moving downwards, then a hedge fund can push its entire fund out of the peseta in one go. By being conspicuous and powerful, they can move the market in a desired direction."

In the recent currency crisis, the activity of the hedge funds, which have excellent track records, encouraged other market participants to operate in a similar way.

As the IMF report puts it: "While the hedge funds acted as market leaders, the real financial muscle was provided by institutional investors (mutual funds, pension funds, insurance companies) and by non-financial corporations.

The sheer size of these funds provides much of their power. While a bank might take positions in hundreds of millions of dollars, it would not be unusual for a pension fund manager to move billions of dollars in one go.

But here again, it is not just the huge sums that the pensions funds have, but their new methods that explain their new power.

Until recently, the rapid expansion of international fund management had not, of itself, had much impact on exchange rates. Much of the international portfolio diversification has been into long-term regional funds which do not take active currency decisions.

However, improved liquidity and trading technology is now allowing investors to move quickly into and out of domestic and international investment positions.

According to the IMF: "Advances in the technology of financial transactions – ranging from back-office clearance and settlement to trading and information systems to settlements of payments – have reduced transaction costs to the point where they less and less serve as an impediment to rearranging portfolios when expectations change."

Moreover, specialist managers are now managing currency as a separate asset class in itself or managing the currency exposure of funds as a separate decision.

This latter method of control, called currency overlay, makes it easier to separate currency management from that of the underlying assets.

Mr Dirk Morris, of J.P.Morgan Investments, in London, says: "The currency overlay business has grown from nothing four years ago to the management of somewhere between $15bn and $25bn today. And our own business has grown by 30 per cent over the past year."

Is all this a cause for concern to central banks? There is little doubt that these flows can now overwhelm governments.

As the IMF puts it: "When private markets, led by the increasing financial muscle of institutional investors, reach the concerted view that the risk/return outlook for a particular currency has deteriorated significantly, the defending central bank can be faced with a run that could easily amount to say $100-200bn a week."

Admittedly, turnover in other markets is still far greater. The entire volume of marketable debt in US government securities turns over, on average, once every eight days, a far greater figure than would be the case for foreign exchange.

But the market practitioners are convinced that the role of the big funds in currency markets is set to increase in the coming years. Governments need to decide whether there is anything they can do to manage these flows, or whether the game is already up.

Foreign investments of pension and open-end mutual funds for selected industrial countries: 1991

	Mutual Funds		Pension Funds	
	Total assets ($bn)	Share of foreign assets in total assets (%)	Total assets ($bn)	Share of foreign assets in total assets (%)
France	396.5	4.3	–	–
Germany	174.6	34.9	–	–
Japan	349.4	–	655.0	7.0
United Kingdom	100.8	39.2	560.0	20.0
United States	1,346.7	6.6	2,725.0	4.6

Sources: InterSec Research Corporation and Investment Company Institute IMF survey: International Capital Markets, Part I

**International Capital Markets, Part I. Exchange Rate Management and International Capital Flows*

Taking positions in the dining-room

PROFILE:
Richard Edwards
By James Blitz

YOU'VE HEARD of George Soros, the currency speculator who claims to have broken the pound on Black Wednesday.

Now meet Richard Edwards, a 42-year old Cambridge University graduate who is carrying out the same kind of short-term currency speculation from his flat in Hampstead, North London.

As currency dealers go, the two men operate on different scales. Mr Soros's Quantum fund, which is based in New York, has several billion dollars under management. Mr Edwards, an ex-bank dealer who runs a one-man fund from his dining room, says he controls funds which are under £100m.

Mr Soros can claim that his speculation was enough to help bring about the devaluation of the pound.

By contrast, Mr Edwards has the more modest claim of having recently turned £25,000 of his own money into £1m in 18 months.

What both men have in common, however, is that they are involved in intense short-term speculation on financial markets, making them the scourge of central bankers round the world. "People in my profession are shy of calling themselves speculators," says Mr Edwards. "I am not shy at all. A speculator is what I undoubtedly am."

Mr Edwards is one of the growing breed of commodity trading advisers (CTAs) – like the hedge funds – which are causing concern to central banks.

In recent years, the number of these funds has grown in the US and Europe as national capital controls have broken down, exchange rate volatility has gone up and returns on speculation have increased.

Mr Edwards says that the essence of their business is to take active currency risks for a range of clients that want higher than average returns on their money.

The client will first deposit a sum of capital with a commercial bank as collateral. A manager like Mr Edwards is then given limited power of attorney over its use. He can then buy and sell currencies in the foreign exchange market, taking highly leveraged positions that are well in excess of the collateral deposited.

Mr Edwards takes positions three times the size of the collateral. This speculation is lucrative: "My returns for customers have been slightly over 30 per cent," he says.

But it is risky, too. "I make thousands of decisions every year," he says. "If just one of them goes wrong, it can jeopardise all the others. If, last year, I had speculated strongly that the French franc was about to devalue and had held my position, I could have had everything wiped out."


Richard Edwards: 'a speculator'

What technology do budding CTAs need? First – and the centrepiece of Mr Edwards dining room – is a terminal with the latest exchange rates and a chart-drawing function.

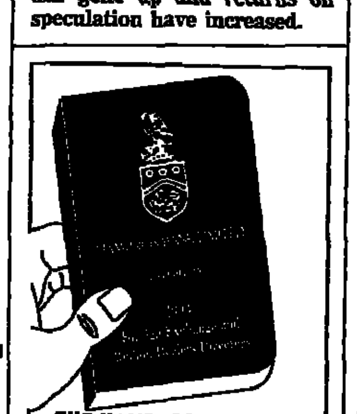
Second item: a portable telephone. "I have to know about exchange rates and bond prices constantly," he says. "It can be very tiring."

Those who speak of the immorality of speculation are unaware of how the financial markets are changing, he says.

"It used to be considered that there was a difference between investment – which was honourable – and speculation – which wasn't," he explains. "But the distinction between useful investment and useless speculation is becoming blurred."

Will this speculation grow? "The currency market these days is so huge and competition so intense that dealing costs are now very small. It is therefore very cheap to get in and out of the market fast."

Is he a millionaire? "A millionaire these days is someone who makes a million a year."



FOREIGN EXCHANGE 3

Lamberto Dini headed the group that reported on currency strains

Official foreign exchange reserves of central banks of selected countries: 1992 ($m, end of period)

	France	Germany	Ireland	Italy	Portugal	Spain	Sweden	UK
January	27,552	55,430	4,837	41,973	19,936	62,526	19,648	38,040
February	29,818	56,190	4,878	41,089	20,469	62,980	21,640	37,766
March	29,979	56,477	5,427	39,704	21,511	64,305	21,474	37,150
April	30,923	57,968	5,790	36,507	22,288	65,275	18,092	37,892
May	30,938	57,147	6,106	36,511	23,323	66,930	22,567	38,636
June	30,521	58,555	5,268	31,693	24,934	70,555	22,876	39,451
July	29,452	57,750	4,971	23,589	25,860	69,002	22,041	40,079
August	28,471	61,402	5,164	20,363	27,036	68,882	16,633	40,184
September	26,039	114,644	3,456	24,974	22,597	54,871	19,840	37,118
October	30,921	83,015	3,517	19,529	19,815	50,917	...	35,600
November	...	80,462	3,041	23,037	18,282	41,219	...	35,900

Source: IMF International Financial Statistics

Central banks: **Peter Marsh** sees five ways to avoid a repeat of last year's crisis

EC linkage may be curbed

THE CENTRAL bankers of the leading European nations are not normally the objects of pity. However, last year their world turned upside down.

One of the lessons from the crisis in the European exchange rate mechanism was that the ability of central banks to keep currencies within prescribed ranges – when faced with determined pressures from the foreign exchange markets – is extremely limited.

As the consequences of the ERM turmoil sink in, the European Community's central banks and their governments may be forced dramatically to scale back their ambitions for linking exchange rates. That could place formidable barriers to the Maastricht plan for creating a pan-EC currency union by the end of the century.

The limits to the powers of central banks was spelled out in a report* by the International Monetary Fund released last month. "Until recently," it said, "attacks on exchange rate regimes were treated as aberrant speculative disturbances of otherwise well-functioning markets. It is now recognised, however, that attacks can be the market's response to policy goals that are perceived to be inconsistent with a given parity."

The report added: "The markets eventually decide on what are unsustainable [economic] situations and, when they do, their size alone increasingly allows them to force adjustments."

Between last autumn and early this year hundreds, if not thousands, of currency investors around the world collectively decided that the currencies of the UK, Italy, Spain, Portugal and Ireland were overvalued in the mechanism against the D-Mark.

All were forced to devalue, despite European central banks selling in the final six months of last year an unprecedented DM284bn from their reserves in a vain effort to prop up the weak currencies.

Behind the drama was investor sentiment that the fragile economies in the countries concerned could not contend with the high interest rates needed for their currencies to keep within their D-Mark parities.

As one central banker involved with the drama put it: "It was a very difficult situation. We were defending the indefensible."

There are five main ways in which central banks and their governments can try to ensure that a similar currency crisis within the EC does not take place again.

□ One is to hone the array of tactical weapons at the disposal of central banks to defend currencies, including changes in interest rates and intervention on markets to raise or depress currencies' value.

There is a limit to the efficacy of such actions. In the case of hypothetical increases in interest rates to defend a country's currency, the financial markets may calculate that the tight borrowing conditions will be unacceptable in a country hit by economic slowdown. Hence high interest rates may create more turbulence, rather than reduce it.

This was accepted in a report on the currency strains published last month by a group of international officials headed by Mr Lamberto Dini, director general of the Bank of Italy. This concluded: "The effectiveness of interest rate adjustments may depend on whether market participants perceive that the authorities are strongly committed, and politically able, to maintain interest rates at the adjusted levels on a prolonged basis."

□ The second way forward is to agree to adjust fixed-rate systems far more speedily to take account of economic pressures. Mr Wim Duisenberg, chairman of the EC committee of central bank governors and the head of the Dutch central bank, says Europe should have decided to encapsulate all the realignments during the six-month crisis "into one long weekend".

Such neat solutions may be difficult to achieve, on the grounds that governments normally see devaluation as a big political and psychological blow. They therefore submit to a devaluation only as a last resort and after a great deal of argument that can be highly time consuming.

□ The third idea is to try to arrange that, within a specific geographical region, the economies of individual countries which elect to peg exchange rates are reasonably in harmony with each other.

In such a state of affairs, exchange-rate fluctuations should remain fairly small. This can best be managed, according to the Dini report, "in economies with relatively flexible wages and prices, low structural rigidities and countercyclical fiscal stabilisers that are relatively effective and well disciplined."

In Europe, the closest to a group of countries linked in this way is what can loosely be called the west European currency bloc – centred on Germany, the Netherlands, Belgium and Austria – where there is a relatively high degree of economic convergence and interest rates are set largely according to German monetary policy. There may be practical difficulties in achieving economic convergence across a broader set of EC countries in the way envisaged under the Maastricht treaty.

□ The fourth idea is to move rapidly to abolish all differences in exchange rates; in other words, to a full currency union for the countries involved. This option would probably be valid only for those nations which had already agreed the necessary large degree of economic convergence. For other countries such a move would involve an unacceptably high degree of economic strains.

□ Fifthly, nations could decide that the strains of trying to stay in a fixed exchange rate system are greater than the benefits , and give up on this idea. For the moment Britain – and possibly Italy, too – is in this position. All the signs are that Britain, at least, will be in no hurry to return to the ERM, which reduces the possibility of Europe's fourth biggest economy joining in a monetary union according to the agreed timetable.

**International Capital Markets: Exchange Rate Management and International Capital Flows. $20, IMF, 700 19th St NW, Washington DC 20431*

James Blitz explains the rising interest in products that allow currency exposure to be hedged

An insurance or a threat to stability?

THERE ARE many reasons for the dramatic growth of the foreign exchange market in recent years. But no technical development is as important as the invention of currency-based products which allow investors to hedge their underlying assets against exchange rate risks.

In the 1980s, fund mangers initially diversified their portfolios because of the reduction of capital controls and a need to find new sources of income.

But the factor clinching their strategic decision to invest abroad was that they could buy special financial instruments like forward contracts and options to hedge themselves against risk.

More recently, the crisis in the exchange rate mechanism has sponsored a new wave of interest in these derivative products among corporates who want to hedge their currency exposure in a more volatile environment. Foreign exchange managers in London report a huge increase in demand for these products in the past 12 months.

As a result, the outlook for these markets appears healthy. According to the International Monetary Fund, spot transactions in FX accounted for 73 per cent of turnover in the UK market in 1986, and 50 per cent in 1989. But the share of turnover in forwards and swaps increased from 27 per cent to 47 per cent.

However, while these instruments seem like insurance premiums to some investors, they are being seen as a threat to the stability of the foreign exchange market.

In particular, serious concerns are being expressed about the development of the market in options, which allow investors to buy or sell a currency if it strikes a certain price.

As with so much else in the foreign exchange market these days, the concern over options arise from recent changes in the industry. In the early 1980s, the trade in currency options was in its infancy and supply-led. But, more recently, new and more sophisticated ways have been thought up, by which corporate and institutional customers can hedge themselves against risks.

There is a particularly strong interest in over-the-counter options (OTCs), which a bank sells to an individual customer, and can be tailor-made to meet customer requirements in considerable detail.

Mr Patrick Allaway, managing director of global foreign exchange sales at Swiss Bank Corporation, says there are now 15 variations of the "plain vanilla" option. Customers, these days, can buy exotic products called "barrier options," or "basket options," which allow them to reduce their cost of hedging.

The development of these options has made them extremely attractive to investors and turned the derivatives business into a lucrative one.

But in an age of volatile exchange rates, the security which the customer receives from *buying* the option may create problems for the bank which is *writing* it.

In the last six months, several options-writing institutions have incurred severe losses, because they assumed that the ERM set fixed floors and ceilings for excessive movements in exchange rates.

Nobody talks openly about the casualties in this market. But a commonly-held view is that several French institutions, which had particularly well developed options businesses, were severely burned in the crisis.

There were also indications earlier this month that the Bank of Spain lost billions of dollars by using options to defend the peseta's exchange rate.

The central bank in Madrid has denied the allegations. But dealers say that the Bank of Spain wrote call options allowing investors to buy D-Marks at exchange rates between Pta72 up to Pta80, in the belief that there would be no devaluation to these levels.

Amid higher volatility in European exchange rates, there has been a general rise in the cost of premiums. But foreign exchange managers believe that, where casualties occur, it is because senior executives do not understand the risks being taken by their staff.

Mr Martin Jaskell, head of global sales at NatWest Markets, says: "If there is not a proper understanding of the risks in this business there is a potential for almost unlimited losses. That is why proper control is absolutely essential."

Central banks have also raised concern about the prospect of credit default in this industry. Last month, the Bank for International Settlements said that it might extend the amount of cash cover that commercial banks had to set against the risks that were being taken in currency and futures markets.

But concerns remain that the growth of the derivatives market could help to intensify currency flows which are directed against fixed exchange rates.

Again, last year's currency crisis provided a case study in the nature of this market. In September, when both the lira and sterling were pushed close to their ERM floors against the D-Mark, banks which had written options to sell the currency below the ERM floor had to hurriedly hedge their underlying (or delta) positions to ensure they could pay customers at the new rate.

As the IMF puts it in its recent report on capital flows: "Standard option pricing formulas do not allow for the possibility of jumps in exchange rates, for example during a realignment of ERM central parities. A surprise realignment could greatly increase the delta leaving the bank underhedged."

For the moment, the options business, which accounts for only 3 per cent of total turnover in foreign exchange, is not big enough to concern regulators too much.

But one leading currency manager in London said recently that if the share of turnover grew much more, the impact of these products on the market would be worrying to central bankers

"If you got to the stage where 10 per cent of all turnover were options related, then the underlying moves would effectively account for half of all FX turnover," he said. "And once you get to those levels, the more risk there is that you would get extreme moves in the major currencies as a result of derivatives."

IN DEALING rooms across London, foreign exchange managers are trying to restrain their euphoria.

Twelve months ago, the outlook for currency trading as a business was bleak. The prospect of European Monetary Union prompted talk of declining volatility in European currencies.The yen's exchange rate was dormant as Japan failed to counter its economic downturn with a fiscal stimulus. And dealers talked about the need to find returns in exotic currencies amid decreasing volatility in the major currency pairs.

And then there was Black Wednesday – the apogee of the greatest crisis to hit the currency markets since the collapse of the Bretton Woods agreement in the early 1970s.

Last autumn's turmoil in the exchange rate mechanism

Market turmoil brought huge profits. **James Blitz** considers the implications

New anxieties for the banks

unleashed huge flows of funds through the world's dealing rooms – and the major banks made large profits managing the flows against a background of gyrating exchange rates.

"It was, quite simply, the most outstanding year the foreign exchange market has ever had in terms of profits," says Mr David Clark, treasurer for Europe at Midland Global Markets.

Banks never reveal their net profits in foreign exchange, and last year's real returns can only be guessed at by looking at the banks' annual reports. At NatWest bank, for example, gross profits in foreign exchange were up around 150 per cent between 1991 and 1992, from £103m to £253m.

An official at another commercial banks claimed that, in a good year like the last one, net FX profits at a UK clearing bank would be 20 per cent of the profits of the group's entire treasury operation. At US investment banks, which are more dedicated to trading in international capital markets, the profits would be even greater.

The profits were reflected in pay packets, too. One chief dealer at a London bank, who must remain nameless, recently admitted that he had taken home a gross salary of nearly £250,000 in 1992.

With returns like that, foreign exchange managers ought to be boasting of success all over London. But they are not. One reason, is that the banks are all too aware of the contempt that the public has for what are deemed to be the profits of speculation. The danger is that central banks might harness the angry public mood to try and regulate the market.

A more immediate concern for FX managers is that, even in plentiful times like the present, they must study the market hard if they want to stay ahead of their rivals in a highly competitive business.

These days, a commercial bank cannot just buy and sell currencies and hope to make a profit. A bank's size, its geographical position and the range of products it supplies to customers are all critical to success in currency dealing.

The fundamental goal of every FX operation today is to "capture" the currency flows. The more turnover that a dealing room does, the greater the returns that it can make by playing the short-term movements in exchange rates.

At the same time, the more a bank can see what its major customers – like corporates and pension funds – are doing, the more intelligence it has about how to trade its own currency portfolio for profit.

It has become increasingly clear in the past year that an FX manager who wants to maintain his bank's share of overall currency turnover must keep several issues at the fore-

Central banks might heed the public, and try to regulate the market

front of his mind if he wants to increase turnover. First, he must be aware of the increasing concentration of business in the major financial centres, especially London and New York. The Bank for International Settlements reported recently that London increased its share of the world's FX turnover from 25 per cent in 1989 to nearly 30 per cent in 1992.

These days, the prime movers of capital around the world are pension and investment funds, and the quantity of a single transaction can sometimes run to billions of dollars. Only the major centres can manage the huge pools of liquidity in the main currency pairs like dollar/D-Mark and dollar/yen.

Another critical issue is a bank's size in the market. There is an increasing concentration of business among a decreasing number of the major commercial and investment banks.

The Bank of England reported last year that the 10 most active banks in the City of London had 43 per cent of FX turnover, up from 36 per cent in 1989. Only the biggest banks can convince fund managers that they have the financial muscle and creditworthiness that these investors seek.

The most important decision that an FX manager must make is exactly what kind of operation he is running and what services he is offering to clients and other banks.

In recent years, the major commercial banks have expanded their FX operations from straightforward transactions in the spot market into the more sophisticated operations that tend to be dominated by more specialised investment banks.

Many commercial banks now offer sophisticated products to their clients, like tailor-made over-the-counter options for corporates, or advice on asset allocation. The trend is scurrilously described as "balance sheets trying to acquire brains".

Mr Martin Jaskell, head of global sales at NatWest Markets in London, says that his bank has put a lot of effort into developing its customer and derivatives side in recent years. "Nobody in this business wants to just make a price. They want to know why they are being asked to make a price. And I am always training my people to ask the question 'why?'"

Despite this, the major investment banks remain confident that they will be able to keep their customers, even though they must use the major interbank counterparties as a clearing house for their clients' operations.

Mr Dirk Morris, of J.P.Morgan Investments, in London, believes the banks are hindered by their inability to take large open positions under the Basle agreements. "The banks are not in a position to take on risk," he says. He admits, however, that, if the banks are able to improve their balance sheets over the next few years, they may provide more competition.

That competition will seem insignificant if governments and central banks introduce capital controls or taxes over the next few years to contain short term currency flows.

But, for the moment, the main question preoccupying currency managers is how they can get the biggest slice of what is becoming one of the richest cakes in financial markets.

Net foreign exchange market turnover ($bn a day)

	March 1986	April 1989	April 1992
United Kingdom	90	187	300
United States	59	129	192
Japan	48	115	128
Singapore	...	55	74
Switzerland	...	57	68
Hong Kong	...	49	61
Germany	...	...	57
France	...	26	35
Australia	...	30	30
Canada	9	15	22

Sources: Bank of Canada; Bank of England; Bank of Japan; Banque de France; Deutsche Bundesbank; Federal Reserve Bank of New York; Monetary Affairs Branch, Hong Kong; Monetary Authority of Singapore; Reserve Bank of Australia; and Swiss National Bank (IMF Survey of International Capital Markets).

No getting away from it

PROFILE:
Midland's Rob Loewy
By Emma Tucker

FOR Rob Loewy, head of foreign exchange at Midland Global Markets, work never really stops. Even when he goes on holiday he is plugged into CNN within hours of departure, in spite of vows beforehand to switch off.


Rob Loewy: a 12-hour day

But that, he says, is part of the attraction of the job."You can never really relax. If you pick up a paper or switch on the news there will always be something that affects you."

Mr Loewy, 35, carries out his job from the middle of London's biggest dealing room. He is responsible for 100 people in London and a further 21 dotted around Midland's nine regional treasury centres.

Being head of foreign exchange at a major clearing bank is quite different from working in one of the big American investment banks, he says, stressing the need to cater for small orders as well as the professional end of the wholesale market.

"We would like to be the bank that can quote prices for as little as £10,000 through to £10bn," he says.

Midland's merger with Hong Kong bank last year expanded foreign exchange operations enormously. There are now over 700 dealers in the dealing room, offering a range of financial instruments including foreign exchange, gilts, off- balance sheet trading, European government bonds, futures and equities.

Having everyone together on one floor, says Mr Loewy, improves the flow of information in an age where big events that move financial markets have ramifications for several areas.

The merger was only one of the elements adding to an already pressurised job last year. Black Wednesday, and turmoil on the European currency markets, came along to test Midland's foreign exchange capabilities as the banks were joining forces.

"There has been an increase in the number of speculators," says Mr Loewy, thinking back to September 16 when the pound was forced out of the European exchange rate mechanism. "But the role we play as a UK commercial bank is very different. We have an enormous set of internal limits that are there to protect our share holders and investors. We can't afford to take huge risks."

Mr Loewy started work as a foreign exchange dealer, aged 21, after graduating from Birmingham University, where he read political science. He joined his first employer, Chemical Bank, in 1978 just as foreign exchange was beginning to expand. By the time he left for Hong Kong Bank in 1989, he was responsible for foreign exchange operations at Chemical Bank.

He is now used to getting out of bed before 6am and driving the 9 miles to the office before starting work at 7am. He leaves 12 hours later, and on occasion comes in during the night to watch particularly important orders.

At home, a Reuters terminal is installed and he carries a bleeper everywhere.

"I have a stable home environment, a wife and two small children," he says. "My wife is very understanding of the pressure and the hours that are necessary for this role. She probably realises that there are not many ways in which she can alter or change that."

When he is not overseeing Midland's increasingly complex foreign exchange operations, Mr Loewy is involved with recruitment, visiting the regions, and keeping abreast of customer requirements.

Peter Marsh asks whether changes may be imminent in the major-centres league table

They're breathing down London's neck

LONDON MAY find the going harder over the next few years, as it seeks to consolidate its position as the leading centre in the world's foreign exchange market.

Last year's crisis in the European exchange rate mechanism helped London's position. Traders in the UK capital had a ringside seat at the drama, and more influence on what was going on than their counterparts in New York and Tokyo.

However, London's role could slip if, as expected, the European Community nations choose somewhere outside the UK as the site of the mooted European Central Bank.

Also, New York appears to be flexing its muscles as a centre for foreign exchange dealing, with more US fund managers choosing to shift in and out of non-US currencies as a way of maximising their investments.

At present Tokyo is a poor third in the league table of the centres for foreign exchange. The nearest rivals to London in the rest of the European Community – Frankfurt and Paris – are some way down the field and look in no great shape to make much headway catching up.

According to the latest surveys of currency market dealing, in April 1992 London accounted for currency trading worth about $300bn a day, or almost one third of the world total of some $1,000bn. New York was next with $192bn, then Tokyo with $128bn.

Further down the league table, in fourth place, is Singapore with a daily turnover of $74bn, Zurich with $68bn, Hong Kong ($61bn), Frankfurt ($57bn) and Paris ($35bn).

In recent years London has increased its lead, its annual daily turnover having risen by 60 per cent between 1989 and 1992. New York, in contrast, saw a 49 per cent increase in turnover during this period, while the increase for Tokyo was a meagre 11 per cent.

All these centres have seen their foreign currency business rise in line with increased liberalisation of financial markets worldwide, in which cross-border money flows have become much more important. Total gross cross-border equity holdings in the US, Europe and Japan increased by more than 50 per cent from 1986 ot 1991, from $800bn to $1,300bn, according to estimates at the International Monetary Fund.

Institutional investors have played a big part in this increase in international monetary flows. European funds typically invest around one fifth of their assets in other countries, as opposed to the equivalent proportions of less than 10 per cent in the case of US and Japanese funds.

As a result, the shifts have had a proportionately greater effect on pushing up currency trading in Europe than in the other industrial regions. London has been a major beneficiary of this trend, partly because of the lightly regulated nature of capital markets in the UK.

However, according to Mr Geoffrey Dennis, head of research at the New York office of stockbrokers James Capel, this picture may be changing. He says US investors

New York appears to be flexing its muscles as a centre for forex dealing

are becoming more interested in switching money into other currencies as they begin to weigh up the attractions of cross-border investments.

In the past few years, this trend has been underscored by the rise in importance of the mainly New York-based "hedge funds" – relatively small funds, which do business by taking speculative positions in currencies.

According to Mr Lawrence Veit, an economist at the Brown Brothers Harriman investment bank in New York, US investors' "global spread" puts New York just ahead of London as a place from which he would advocate that a portfolio of investment be handled.

Even though there may be grounds for thinking New York will catch up somewhat on London in the currency trading league table, London will retain the huge advantage of being in a favourable time zone for international foreign exchange dealing.

A possible threat is the prospect that at least a sizeable part of Europe will move on schedule to a single currency around the end of the century. That development would automatically greatly reduce the opportunity for trading in European currencies, and might damage London's role.

Another possible damper for London is that, assuming some form of monetary union comes about, the planned European Central Bank is likely to be sited somewhere other than London, with the main contenders being Bonn and Amsterdam. Some people think that London's role as a centre of currency trading would be diminished if it were some way from the centre of the action in terms of monetary policy decisions.

However, according to another school of thought, the location of the central bank will make very little difference to currency markets in specific countries. A fully paid up member of this school is Mr Eddie George, who takes over as governor of the Bank of England on July 1, from his current job of deputy governor, and who is relatively unconcerned about the implications for London financial markets of a central bank being located on mainland Europe.

Exotic currencies

Young economies attract institutions

IN THE last 12 turbulent months, commercial bank dealers have made unusually large profits trading in the major currencies – the dollar, D-Mark and yen.

But foreign exchange managers, with their eyes on the future, wonder whether, in 20 years' time, the big currency plays will be in the Chinese renminbi, the Thai baht and the Argentinian peso.

Until recently, the trade in these so-called "exotic" currencies was mainly directed at providing a service to corporates with direct investments in Latin America, eastern Europe and south-east Asia.

But the growth rates of these developing economies are now much greater than those in Europe, the US and Japan – and their equity and bond markets are expanding rapidly.

As a result, exotic currencies are beginning to attract institutional investors, like pension and fund managers, who want to be exposed to the higher returns that can be made by investing in these markets.

The nature of dealing in "exotics" is still very different from that in the major currency pairs. Bank dealers do not make a rapid entry and exit into these less liquid markets, in the way that they do with the dollar or D-Mark.

Instead, investors look for long-term exposure to the higher interest rates offered in these countries at a time when short-term rates in the developed world are declining.

Miss Birgitte Jespersen, head of the world currency desk at Citibank in London, says that the past year has proved how resilient these currency markets can be when the rest of the global FX market is in crisis.

"At one stage, I thought the turmoil in Europe would have a spill-over effect on these other markets. But some people are beginning to think that exotic currencies are more stable than those elsewhere."

For a currency marketmaker, investment in an exotics desk can be highly lucrative. In recent years, the rate of return from trading these currencies has grown as fast as the profits made trading the major market.

But there is little sign that banks are rushing to set up exotics desks all over London.

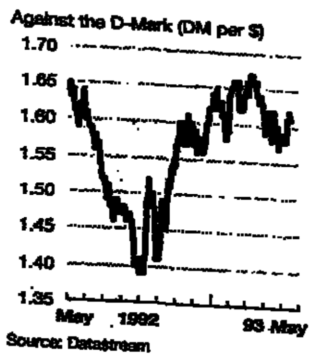
It remains a sophisticated – and skills intensive – business to get into. "If you build a business like this without a strong customer base in the first place, then it will not come to you," says Ms Jespersen. "And the customers tend to have a natural interest in the countries they are investing in."

One factor which may improve the profile of the exotic currencies would be progress in economic reform in China and Russia, potentially the two largest markets in the world.

Political chaos in the Kremlin, uncertainties over privatisation in Russia and inconvertibility are all cited as reasons why the rouble is far from being considered by London dealers as a currency to trade.

The Chinese renminbi is much more likely to attract dealers' attention in the near future. The Chinese authorities have recently set up swap centres, which allow foreign companies to exchange hard currency for the renminbi at a fixed rate. With China's growth rate at around 12.8 per cent, this is clearly a currency to watch

James Blitz



President Clinton's problems are hurting the dollar, says **Patrick Harverson**

The markets remain wary

AT A time when the new US president should be enjoying the political honeymoon afforded to all new White House occupants, and aggressively pushing his new policies through Congress, Mr Clinton's economic reforms are in jeopardy.

His stock with the financial markets, the business community, the media, and even the public, is also falling fast.

Not surprisingly, the president's problems have hurt the dollar. The Federal Reserve may have recently intervened on its behalf, but the currency remains near all-time lows against the yen, and only a few pfennigs above where it started the year against the D-Mark, in spite of declining German interest rates and a rapidly weakening German economy.

The economy has slowed down from the strong rates of growth seen at the end of 1992. After expanding by 4.7 per cent in the final three months of last year, gross domestic product grew by only 1.8 per cent in the first quarter of this year.

Judging by a host of recent indicators, second-quarter growth is not likely to rebound strongly, either. Concern about the economic outlook has reached a point where analysts have begun warning that the Federal Reserve may have to cut interest rates once more.

While the economy has stumbled, so has President Clinton, whose political fortunes have nose-dived since the euphoria surrounding his first few weeks in office.

He has also been rapidly losing the confidence of the public, who appear unhappy about his planned tax increases and worried by the president's lack of legislative success. A politically insecure president is never good for the dollar, least of all one who is struggling during the opening months of his first term.

To make matters worse, in recent months the Clinton administration has given the foreign exchange markets the impression that it favours a weak dollar against the yen, apparently in the hope that this would help to narrow the US trade gap with Japan. The impression was first formed in February, when Mr Lloyd Bentsen, the US Treasury secretary, spoke in support of a stronger yen before reporters at the *National Press Club*.

Within days, that impression had crystallised after Mr Clinton, at a meeting with Japanese prime minister Mr Kiichi Miyazawa, said that he expected the US trade deficit with Japan to shrink because of the weakening dollar/yen rate. Not surprisingly, foreign exchange dealers took this as an excuse to sell the former and buy the latter, lowering the exchange rate from Y125 at the start of the year to Y110.

Since then, it has barely budged, in spite of central bank intervention and a policy reversal (of sorts) by the administration.

Under pressure from Tokyo, which worries that the strong yen will hurt Japanese exports at a time when the domestic economy is in a slump, Mr Bentsen explained that there had been some "misperceptions" about the government's stance on the dollar. He did not expressly say that he now favoured a stronger dollar against the yen, but he warned that the government stood ready to fight "excessive volatility" in the markets. To some observers, the whole episode underlined President Clinton's naivety when it comes to handling issues of global finance.

Against the D-Mark, meanwhile, the US currency has remained relatively weak, primarily because recent gradual and modest reductions in German interest rates have not been enough to significantly narrow the differential between US and German rates. What is more, hopes that the US Federal Reserve might start tightening monetary policy later this year have been temporarily dashed by the deceleration in US economic growth.

The dollar/D-Mark rate may have also been affected by heavy selling of dollars by the Bundesbank. Speculation in the foreign exchange markets suggests that the German central bank, which bought billions of dollars last autumn during the crisis in the European exchange rate mechanism, has been steadily selling those dollars in the markets to rebalance its reserves.

Economists are divided over where the economy is heading, but the consensus is that it will record a steady, if unspectacular, rate of growth for the rest of the year – somewhere in the range of 2.5 per cent to 3.5 per cent.

This does not necessarily bode well for the dollar, but what does is the likelihood that the German and Japanese economies will weaken throughout 1993, and that the Bundesbank and the Tokyo government will lower interest rates in an attempt to spur domestic economic activity.

The Bundesbank, in particular, is likely to take a more aggressive easing stance, now that it apparently believes inflationary pressures are under control.

Dollar investors, however, cannot count on the interest rate differential being narrowed further by a tightening in US monetary policy. As Mr Edward Yardeni, chief economist with CJ Lawrence in New York, says: "We believe that the Fed's number one concern is to keep the economy growing. So the recent weakness in the foreign exchange value of the dollar shouldn't be an obstacle to lower rates."

As for President Clinton's role in the dollar's future, it is too early to tell if his current problems are merely the early-term hiccups of a freshman administration, or, more worryingly, a precursor of worse to come. Whatever happens, it is fair to say that, for now at least, the foreign exchange markets do not have much confidence in the new president.

Cassandra of the Greenback

PROFILE:
SBC's Jim O'Neill
By James Blitz

MOST CURRENCY forecasters puzzle endlessly these days over whether the US economic recovery will sustain its recent pace,and whether the US dollar will go up or down.

But Mr Jim O'Neill, the 37-year-old head of currency research at Swiss Banking Corporation in London, has never expressed much doubt about the US currency's long-term future: "I am still looking for the dollar to reach new historic lows against the D-Mark. The only question is whether it will happen this year or in the next three years."

Mr O'Neill might well merit the title "Cassandra of the Greenback". He is one of the most outspoken among a minority of analysts who believe that the US currency has a strong downside.

After the US currency plunged to a historic low of DM1.3860 against the D-Mark last September, many analysts became overnight dollar bulls. The year 1993 was dubbed "the year of the dollar," with a few forecasters suggesting that it would top DM1.85 against the D-Mark this year.

The US currency's recent inability to break the DM1.67 level has taken more than a few investors by surprise.

But Mr O'Neill believes that its performance fits his bearish outlook on the currency.

The tall Mancunian with a no-nonsense manner says that he became a true dollar bear five years ago, when he returned to the UK after a long period working in the US.

He came away believing that, after several decades as the world's greatest power, the US had been pushed into a long-term decline by the massive increase in the US budget deficit in the 1980s.

"For a country that loves consuming rather than saving, President Reagan's policies made things worse by increasing the deficit," he says. "And it will be an increasingly difficult problem to solve now because of interest payments."

President Bill Clinton's difficulties getting a budget deficit reduction package through Congress underline Mr O'Neill's long-term pessimism. "The idea that a democratically elected president can cut the deficit by reducing spending is nonsense," he says.

Compounding his view is a belief that the Federal Reserve will cut interest rates again to stimulate economic growth. "Growth may be stronger in the US than in Europe," he says. "But it is weak compared to the experience of Americans. They are used to GDP of 4 per cent at least." Mr O'Neill admits that it is not easy to take such a tough position on the world's major currency, especially on days when the dollar performs well. "Quite a few of our customers phone me up from time to time and say: 'Will you ever be bullish for the dollar?'"


Jim O'Neill: historic lows awaited

Nor is it a position he relishes taking. Despite being an obsessive Manchester United supporter, he does not tend to hold very passionate views. He has a great fondness for the US and appreciates its advantages over England. He says: "We moved from the US with our young son and I fear that, when he's 15, he'll suddenly say: 'Why aren't we living in the US instead of England.' But although he admits to being a maverick among forecasters, Mr O'Neill believes that the problem is not with his judgment but with the market's.

"I have never known an environment where so many investors have had the same view – that the US is going up and that Europe is going down. The scope for disappointment is very great."

The yen's role in east Asia

WHEN THE strengthening of the yen gathered momentum last month, the cries of anguish from Japanese politicians and executives suggested that the currency is close to the pain threshold for companies which have successfully endured a decade of appreciation.

The past decade has also been characterised by appreciating expectations that the yen will play an important role in international markets, but those forecasts are in need of review with the collapse of the financial "bubble", pumped ever larger during the easy-money era of the late 1980s.

Japanese direct investment has fallen sharply, while the country's banks, troubled by a mounting pile of non-performing loans, are wary of new lending to international customers. At the same time, the Japanese corporate focus is still firmly fixed on the traditional measure, the yen-dollar exchange rate, as 83 per cent of import contracts and 60 per cent of export contracts were denominated in dollars last year.

But Japanese interest and investment in east Asia remains strong. Manufacturers are relocating factories to cut costs, and *companies generally expect* strong growth from the region's economies, particularly China, in contrast to their expectations of a weak recovery in the US and difficult times ahead in Europe.

The emphasis on Asia is becoming increasingly apparent. Asian markets accounted for 41 per cent of total trade last year, while north America accounted for 30 per cent – five years ago, both regions were equal at 35 per cent. The Bank of Tokyo estimates that yen-denominated imports rose almost 50 per cent over the past five years, due to "a relative increase in trade with east and south-east Asia, where the share of yen-denominated transactions has traditionally been high".

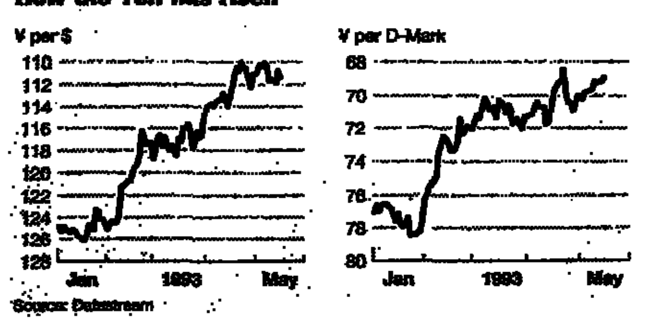
But it was to Washington that Tokyo turned in April, when the yen hovered around Y110 to the dollar and Japanese executives feared that the Y100 mark would be tested in the following weeks. The currency had appreciated 10 per cent in just over two months, prompting the Bank of Japan to intervene and Japanese politicians to warn about foreign exchange "instability".

By "instability", the politicians meant tougher conditions for Japanese export industries, but they thought it inappropriate to plead to the US on behalf of a sector blamed for fuelling the bilateral trade surplus. The Japanese government also felt some justification because it considered President Clinton's apparent support for a strong yen partly responsible for the "instability".

Japan's Economic Planning Agency calculates that a 10 per cent yen appreciation, in theory, creates a 0.48 per cent contraction in gross national product. But the EPA also estimates that the change leads to a 1.3 per cent fall in consumer prices, presumably stimulating final consumption, which has been unusually weak in recent months.

The full benefits of a stronger yen are denied to Japanese companies, because of the reluctance of the energy sector, which imports most of its resources, to pass on the savings to consumers. Oil companies have announced a 0.5 per cent trimming of prices at the petrol pump, but other industries have yet to make similar reductions, arguing that raw materials costs have risen over the past year.

Yen appreciation is another good reason for Japanese manufacturers to relaunch restructuring programmes begun after the currency's sharp rise in the mid-1980s, inspired by the Plaza Accord in September 1985. The Y110 level, where the currency has settled in recent weeks, should not pose unexpected threats to these companies, as the dollar rate hit Y120.45 six years ago.



But the present bout of appreciation comes as the manufacturing sector is recovering from a serious case of over-capacity, brought on by a rapid expansion in Japan-based factories during the late 1980s, when capital was relatively cheap and the yen was relatively weak, distorting these companies' projections for return on investment.

Manufacturers are being forced to look to cheaper production facilities in China, Malaysia and Vietnam, which will spread the regional influence of the yen. During April, Suzuki Motor, Aiwa, the audio equipment maker, and YKK, the zipper manufacturer, announced new production facilities in east Asia.

A related trend strengthening the yen's role in east Asia is a surge in re-imports, products made abroad by Japanese companies and sold in the domestic market, which have increased at an annual rate of 20 per cent over the past five years.

Robert Thomson

The pound: the good news is confined to the short term, warns **Emma Tucker**

In the shadow of the deficit

EIGHT MONTHS is a long time in the life of a European currency. From the turbulent days of September, when sterling was ejected from the exchange rate mechanism and heavily devalued, the pound is now enjoying a somewhat brighter – and certainly calmer – outlook.

Over the past two months, sterling has clawed back some of the losses suffered when it was first left to float on the international foreign exchange markets.

At its lowest point, reached in February this year, the pound had devalued by almost 20 per cent from where it stood on the morning of September 16 – Black Wednesday. But allowing for recent gains, the devaluation amounts to roughly 13 per cent.

Now watch it float: Black Wednesday in the Midland Bank's forex dealing room — Picture: Trevor Humphries

In the short-term, analysts believe prospects for the pound are fairly rosy. The consensus among 40 analysts earlier this month was that, by the end of the year, the pound will be at 79.1 on the Bank of England's trade weighted exchange rate index against a basket of currencies. This compares with the low of 76.0 reached in February. Against the D-Mark, the consensus sees the pound at about DM2.60 in the third and fourth quarters.

Sterling is currently benefiting from a perception among investors that, assuming economic recovery does not falter, interest rates in the UK have reached their floor.

The view is not shared by everyone. A number of analysts believe the government will jump to cut rates at the first sign that the recovery is losing pace. Nonetheless, there is a widespread belief that the next move for interest rates will be upwards. By contrast, interest rates in the rest of Europe are headed decisively downwards.

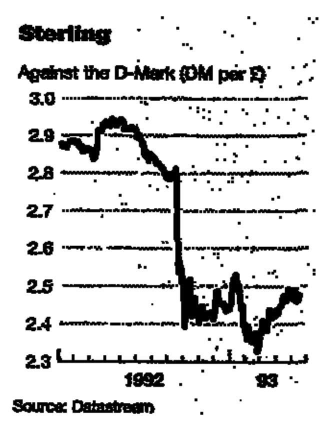
Good economic data is further boosting the pound, at least for the moment. The past few months have seen a succession of optimistic figures on the economy, suggesting that the UK is through the worst of its economic woes.

The figures stand out against the bad news coming from Europe's main economies, in particular Germany where it is sinking into recession.

Underlining the optimism about the pound is a feeling, particularly outside the UK, that sterling is undervalued.

"On the whole, the general view of overseas investors is that the devaluation of the pound was just too big," says Mr Jeremy Hawkins, of Bank of America in London. "They complain that the currency is too competitive now."

Mr Stephen Hannah, head of research at IBJ International, says: "Many investors realise that the pound is a little bit on the cheap side, so from that point of view, at least against most European currencies, there is some chance we can push on ahead."



The good news about the pound, however, is confined mainly to the short-term. Looking ahead, several developments could hinder sterling's advance.

The blackest cloud hovering over the pound is the UK's current account deficit. The financial markets are already anticipating nervously the publication of first-quarter trade figures next month. The old series of figures was suspended at the start of the year as a new system for measuring European Community trade flows was introduced.

Although the Central Statistical Office has warned against deducing trends from the figures that are available – the non-EC trade figures – traders and analysts are disconcerted by their poor performance since the beginning of the year, and are expecting bad news when the EC figures are released.

Apart from the potential shock of the first-quarter trade figures, there is a more general fear that the current account deficit will deteriorate sharply over the next two years, putting pressure on the government to maintain a low pound.

Mr Paul Chertkow, currency analyst at UBS, believes the poor trade balance will add to pressure on the government to stay out of the European exchange rate mechanism, so that nothing can get in the way of a policy to ease the burden of the trade deficit with an aggressively low pound.

Adding to the more cautious long-term outlook for the pound is a general perception among foreign investors that UK economic policy is adrift.

"You don't take anything on trust from this government, given the chopping and changing we have seen," says Mr Hannah.

Mr Chertkow says the perception he picks-up from overseas is one of considerable scepticism about the economic policy of Mr John Major, the prime minister.

"There is a general feeling that the UK hasn't solved the Europe problem yet, and beyond that there is disquiet that the rest of Europe may go ahead without the UK," he says.

Another reason to doubt the ability of the pound to recoup its losses in the long term is that, historically, it has settled at a lower level following devaluation, as high inflation has whittled away the competitive gains won through devaluation.

"We have had one of the deepest recessions of any G7 country, and still there is a question-mark over inflation," says Mr Hannah, who does not believe the UK has conquered its attachment to inflation.

"Over 10 to 20 years, it is best to assume that the pound will depreciate," he says.

Mr Chertkow takes a similarly gloomy long-term view. UBS's five-year forecast for sterling sees it at parity with the dollar and at about DM2.00 against the German currency.

The D-Mark presents a deceptive picture

Recession proves a drag on the anchor

THE Deutsche Mark has strengthened during the past eight months, in keeping with its status as anchor currency within the European exchange rate mechanism and "safe haven" for investors in troubled times.

On a real trade-weighted basis, it has appreciated by 5 per cent since last summer, having risen from 92.6 in July to 97.1 in April, according to an index produced by the Bundesbank – inflicting a substantial loss of competitiveness on the German economy.

The overall picture conceals a loss of value against the US dollar. As German interest rates have fallen and the economy has slipped into recession, investors have been attracted to the US currency by the prospect of economic recovery and higher interest rates. The D-Mark has fallen by 16 per cent since the dollar hit a low point in early September.

It also disguises a steep appreciation against European Community currencies. Here, the increase to February was closer to 10 per cent, reflecting the devaluation of the Italian lire and sterling against the D-Mark. The change will be even steeper after the recent devaluation of the Portuguese escudo and the Spanish peseta.

Economists predict a change in perceptions of the D-Mark: its value against the US dollar is set to decline further, and the currency is expected to lose its relative strength against currencies within the ERM.

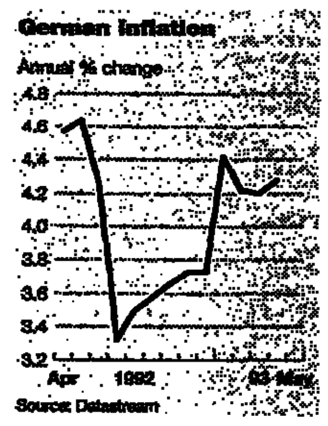
"It will be at the bottom end of the ERM grid, if not at the outright bottom," says Avinash Persaud, currency economist at the Union Bank of Switzerland in London.

This reflects two factors: poor fundamentals for the German economy, and a resurgence of a degree of harmony on foreign exchange markets within Europe.

The attractions of the currency were especially high in the second half of last year. German interest rates were at very high levels as the Bundesbank struggled to stifle the inflationary forces unleashed in the aftermath of German reunification. While the high rates were the cause of currency turmoil, they also guaranteed the appeal of the D-Mark when other currencies were subjected to waves of speculative selling on foreign exchange markets.

Now that there have been a number of exchange rate realignments, the tensions inherent within the ERM have been diffused, thereby removing the conditions under which the D-mark has "safe haven" status.

During the current year, the attractions of the D-mark have diminished with each cut in German interest rates.



Although inflation is at more than twice the Bundesbank's long-term annual target of 2 per cent, more rate cuts are expected, with the Discount rate likely to be down to 5 or 6 per cent by the end of the year. Each cut weakens the appeal of the D-Mark – but the German economy is sinking into its worst recession since the second world war.

Another disadvantage is that Germany's political establishment has not provided any concrete solutions to the problem of public-sector debt. Alison Cottrell, at Midland Global Markets Research in London, calculates that the total figure this year – including debts associated with the Treuhand, the government's privatisation agency for the former east Germany, and state-run industries – could amount to DM231bn, more than 8 per cent of GDP.

Ms Cottrell believes the German government's ability to tackle this issue is further blunted by the prospect of a crop of regional and federal elections. She says, however, that the downside risks for the D-mark versus other European currencies are muted: "Other countries will cut their rates as well. In a European context the D-Mark will be soft but stable." Her estimate is that the D-Mark could move against sterling to around DM2.55 in a year's time.

By contrast, Ms Cottrell predicts further weakening against the US dollar. The extent will depend on the scale of the economic recovery in the US, but she is predicting a rate of DM1.65 to the dollar in six months time, and DM1.70 a year from now.

According to Thomas Mayer, chief economist at Goldman Sachs in Frankfurt, there are striking parallels between the development of the German economy since reunification in 1990 and that of the US in the 1980s under President Reagan. These point to substantial, if slow, depreciation of the D-Mark against the dollar.

While Reagan hoped to stimulate a "supply-side" revolution in the US by cutting taxes, the elimination of central planning in the east was likewise expected to induce an economic revolution. Instead, Mr Mayer argues, both countries got a short-lived demand boom. The result in both cases was high inflation and fiscal expansion.

"Like the US in the 1980s, Germany is becoming a 'twin-deficit country'," he contends. "That is, a country with high and rising public sector as well as external [trade] deficits... In the US [this situation] put downward pressure on the exchange rate and kept interest rates high during most of the 1980's. With 'twin deficits' likely for most of the nineties, we expect the exchange rate of the D-mark to ease and long-term bond yields to rise from present levels in the intermediate future."

David Waller

Electronic brokerage is on the march

Systems prepare for battle

But even bullish project managers recognise the pitfalls, says **James Blitz**

THIS AUTUMN, foreign exchange dealers will have to watch their screens more attentively than ever. The major suppliers of electronic real-time price information to the market are about to engage in a huge sales war across their desks.

The battle is to sell computer systems to the banks which simulate the work currently done by human brokers – and which will do that work a good deal cheaper.

Around 50 per cent of all FX deals are currently struck in direct conversations between two counterparties in the interbank market. An additional 35 per cent of deals are matched by brokers, who bring together the buyers and sellers in the investment banks.

But, although brokers are extremely skilled and quick at their job, they add significantly to the transaction costs which banks incur. Brokers charge commissions, which can be quite considerable for less liquid currencies like sterling and the French franc. At times of volatility, they can also widen the spread between the cost of buying and selling currencies, so that they can make returns.

Electronic matching systems aim to do the same work as the brokers, but at a reduced cost. As one London-based foreign exchange manager puts: "With these new computerised systems, what the dealer sees on the screen is what he gets."

But more than one system is coming on to the market, and the battle to sell them is set to be fierce.

Reuters, which has the largest market share in the provision of real-time information to financial markets, launched its 2000-2 dealing system in May of last year. Last month, Minex, a Japanese company, launched its system which, for the moment, predominantly operates in the Tokyo market.

Later this year, a consortium bringing together the major foreign exchange banks and the electronic information group, Quotron, is launching an electronic matching system called Electronic Broking Service (EBS).

The Reuters system might easily have gone unchallenged. The information group already has a huge hold over communications in the foreign exchange market through its main dealing systems, Reuters 2000-1 and Reuter Monitor, with 19,000 dealing terminals around the world. Quotron, which is backing the EBS project, has only 3,000 of its FX Trader systems world-wide.

However, the launch of 2000-2 was of such concern to foreign exchange managers at London's leading banks, that a group of them felt that they needed to launch a rival in the form of EBS.

One fear was that Reuters would be in a position to dictate the nature of foreign exchange dealing if it could extend its share of transactions to some 80 per cent of the market.

There are concerns, too, that an increase in Reuters market share could put it in a position to change the whole structure of FX dealing, if it so wished.

A growing concentration of the FX business is in the hands of the major interbank counterparties. According to investors in the EBS system, a key concern of the banks is that Reuters should not sell its system outside the non-banking sector.

As one backer of the EBS project puts it: "If Reuters gained such a powerful position that it could put its systems in the hands of anyone it wanted, the interbank market would lose its strong hold on liquidity."

The battle between EBS and Reuters over automated brokerage will be particularly intense, because both companies have approached the development of their systems in different ways.

Reuters spent years developing 2000-2 in laboratories, setting it up live and then finding customers. "You must make sure your product works," says Bob Etherington, marketing director at Reuters in London. "At the end of the day, people will judge your system on reliability, speed and security."

The EBS consortium is also confident about the technical prowess of the system it is yet to launch. But Mr Peter Bartko, director of the group, says the critical advantage of the EBS system is the backing it has from the dozen or so banks which – together – have a 35 per cent share of the liquidity in the currency markets.

"You can't be half pregnant in this game," he says. "You have to encourage dealers to use your system, and they will only do that if they can see a two-way price on the screen with depth. You need a wide audience on day one."

Reuters has come under criticism for launching 2000-2 without signing up the major counterparties as clients. The company is unwilling to reveal detail on transaction volumes, but there has been criticism of the low level of trading in the system's first year.

However, Mr Etherington is confident that the system is going from strength to strength. He says that 189 users have signed up for the system, and another 118 have contracted to use it, in 17 countries. The daily traffic on the system is four times higher than it was at the start of the year. At least one member of the EBS consortium is also thought to have subscribed to Reuters 2000-2 system already.

"We would like to have the major counterparties, but we still have an increasing number of the major players in the market," he says.

Will automated brokerage change the nature of foreign exchange? Even at their most bullish, the project managers acknowledge the pitfalls.

One of the biggest problems is that automated brokerage systems might be comparatively slow in inputting prices into a market where every trading second counts.

Today, when a dealer strikes a price with a broker, the transaction is completed when he shouts "done" down the telephone. He is now invited to use a system in which deals are done in the slightly longer time it takes to type a message on a typewriter keyboard.

But the earlier Reuters systems proved how technology can – with time – change the nature of the market. The volatility and profits in FX are as great as they are today because millions of dollars flow around the world in a split second.

These funds would flow even more smoothly – and foreign exchange turnover will be even greater – if a single institution can claim to be the world's greatest broker.

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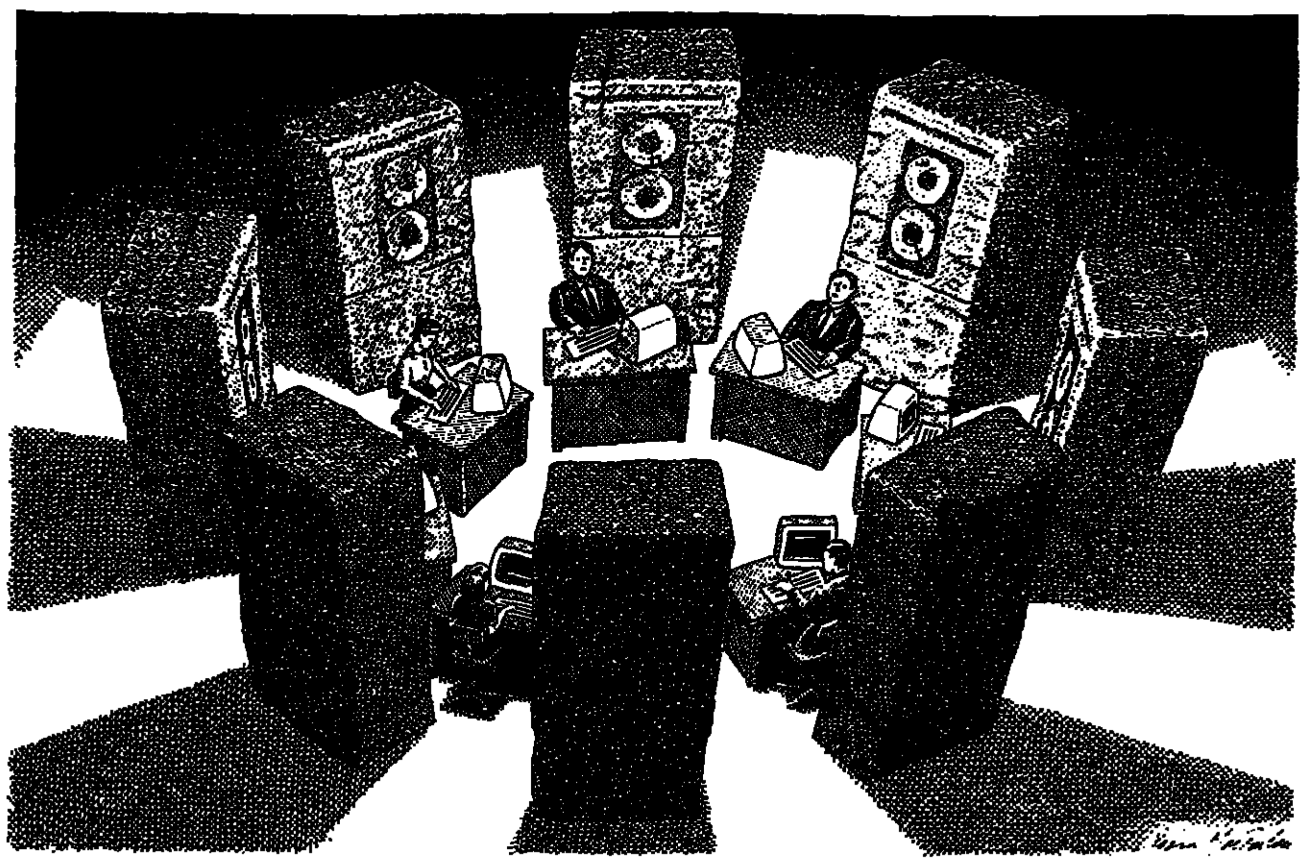
COMPUTER INDUSTRY

The past year has been eventful, even by the computer industry's restless standards. Senior figures have quit as newer, more agile competitors make the running. The scene has been set for a major shift in the balance of power, writes **Alan Cane**

Heads roll in year of havoc



THE computer industry is notoriously volatile, but the past 12 months have been eventful even by its restless standards. Some of the most important heads in the business have rolled as companies have been forced to jettison entrenched attitudes and yesterday's ways of doing business.

"This kind of impact, this kind of change in industrial structure is very exciting but it is very difficult for the companies involved," Mr Bill Gates, chairman of Microsoft, told a London audience last month with some understatement.

The resignation of Mr John Akers, chairman of International Business Machines, set the seal on a year which saw the traditional industry in disarray as newer, more agile competitors made the running. On one memorable day in early 1993 as IBM's share price slipped towards towards $45, its market capitalisation was briefly equal to that of Microsoft, the leading personal computer software supplier, and Intel, the biggest microprocessor supplier.

Since then, Mr Akers has been replaced by Mr Louis Gerstner, formerly with RJR Nabisco. Mr Gerstner has yet to make known his plans for returning the company to profitability, although the indications are that he has set his face against breaking up IBM, which lost some $5bn last year, into independent businesses. He is, however, beginning to make his own appointments at senior level, placing outsiders like himself, with formidable reputations for cost cutting, in key positions. For example, Mr Jerome York, formerly with the Chrysler motor company, has been appointed finance chief.

The transformation in progress at IBM reflects what is happening to many established computer companies today. Closely cherished business principles are having to be abandoned. IBM, for example, no longer rules out forced involuntary redundancy as a way of cutting staff numbers. It no longer insists that its future is tied to mainframe computers – cuts in research and development funds will fall more heavily on the mainframe side than on faster-growing areas such as network computing.

In similar fashion, Digital Equipment, once the global leader in scientific and technical computing, has had to accept that it missed the boat in high performance workstations and open, or industry standard, systems.

Mr Kenneth Olsen, its founder and chairman, has stepped down and under new management headed by Mr Robert Palmer, it is restructuring, focusing on a market-driven approach and attempting to establish Alpha, its innovative 64-bit microprocessor chip that is said to be the world's fastest, as the industry standard.

Compaq, the leader in high performance personal computers, has had to abandon its emphasis on selling high-priced machines through the dealer channel. Masterminded by new management under Mr Eckhard Pfeiffer, after Mr Rod Canion, its founder, was ousted, Compaq's resurgence in the marketplace has been a consequence of developing a new range of low cost machines distributed through a variety of channels.

The personal computer market has now divided into high end machines, broadly defined by IBM's PS/2 range, and lower priced "value-for-money" machines. "No-name" makers – personal computer manufacturers without much of a track record – had been making heavy inroads at the lower end of the market. Now that established makers, led by Compaq and IBM, are making their presence felt in the second tier, branding has become, again, an important selling point. One indication is the decision of Virgin, Mr Richard Branson's music to airlines group, to enter the market.

The machine, to be launched later this year, will use the same microprocessors and operating system as other PC makers; but it will bear the Virgin name, which could prove a powerful selling point.

Changes in the way computers are used within organisations are gathering pace. The emergence and growth of network, or client server computing, is one of the keys to the hiatus in the industry today. It has been accelerated by the availability of powerful desktop machines coupled through high capacity networks.

It is becoming important for many companies because it is a better match for the way business is conducted today than traditional systems.

Don Tapscott and Art Caston writing in "Paradigm Shift"* argue: "As long as businesses and governments could function and survive as large hierarchical bureaucracies, then large, centralised, monolithic host computers were well-matched. However, isolated host systems can no longer match the fast-paced, streamlined and integrated operations of today's well-planned organisation. The client-server approach to work organisation treats business units as networked clients and servers with well-defined roles, each making a measurable contribution to the business and having equally well-defined relationships with other clients and server units."

Mr Fred Gibbons, chief executive of the Software Publishing Corporation, told delegates to the Asian Technology Roundtable conference earlier this year: "Investment is moving from traditional applications towards client-server systems. It will not happen overnight, but in the next five years more applications will be developed on client-server systems than on mainframes."

So the scene has been set for a major shift in the balance of power. Who will be the market leaders in the new computer industry that will develop over the next decade? According to Charles Morris and Charles Ferguson, writing in the Harvard Business Review earlier this year, the secret lies in domination of an architecture, a design which becomes an industry standard.

The two youthful challengers to IBM's market domination, Intel and Microsoft, fit this pattern. IBM in effect threw away control of the personal computer market when it chose Intel microprocessors and commissioned Microsoft to develop MS/DOS for its first personal computer.

Intel has since grown to become the world's largest semiconductor company. Mr Andrew Grove, Intel chairman, says: "It took us 22 years to get to $1bn a quarter in revenues and, thanks to the explosion in demand for our 486 chip, less than three years to get to $2bn a quarter."

The company hopes to continue its advance with the release of Pentium, the successor to the 486 chip. Selling at almost $1,000 in its fastest version, it will be used in high performance personal computers and network servers. A slew of personal computer makers including IBM, Compaq and Hewlett Packard have already announced products based on Pentium.

Microsoft is the world's largest personal computer company driven by sales of a broad range of products but especially MS/DOS and Windows, the most broadly used operating system in the PC world. It is taking a step into the unknown this year with the launch of Windows/NT, an operating system designed for client-server systems, making it possible for users to work on several programs simultaneously and for several users to share the same computer.

Intel and Microsoft will inevitably face heavy competition from other companies – notably IBM and Apple – as technology changes, and there is no guarantee they will be able to maintain their domination. There are other areas where standards can be set, where control of an architecture can give a company market leadership.

PC networking is one such area: the US company Novell is well on the way to setting the standard. Groupware is another. This is software that enables a group of computer users to work together over a network. The market leader is Lotus Development Corporation with a product called "Notes".

Mr John Landry, chief technology officer of Lotus, is fond of saying that in communication: "First there were talking drums, then there was the telephone, now there is Notes."

Notes is a step on the way to comprehensive "multimedia", the combination of text, sound, graphics and moving video in a workstation. Mr Gates of Microsoft describes it as the communication of today's information: "It is simply allowing everyone in the company to collaborate, allowing you to track everything you have done on a new product design, everything you have done with customers."

The companies which control the design of multimedia systems will be the IBMs of tomorrow's data processing industry.

Paradigm Shift by Don Tapscott and Art Caston, McGraw Hill, 1993.

IN THIS SURVEY

Editorial production
Gabriel Bowman

Alan Cane considers the future of the European industry

Information technology: time to be bold

EUROPE'S market for information technology, now the world's largest and accounting for some 36 per cent of global consumption, is dominated by the US and threatened by the Japanese.

"Will there be a European computer industry in the year 2000?" Mr Gavin Kirkpatrick, chief executive of the British Computer Society, the UK organisation for data processing professionals, has asked in a series of international lectures.

That is a serious question which many industry observers are pondering. Europe's large, indigenous IT suppliers – Siemens Nixdorf of Germany, Groupe Bull of France and Olivetti of Italy are losing money and putting in place strenuous restructuring measures.

So serious are the problems that Mr Carlo de Benedetti, Olivetti chairman, has questioned publicly whether the Italian computer manufacturer – which lost £276.3m last year – can survive. Naturally enough, he believes the company's turnaround strategy will prove successful but it is an anxious time, not helped by Italy's political difficulties.

Siemens Nixdorf (SNIS) is taking far longer to return to profits than its managers predicted at the time of the merger of Germany's largest electronics manufacturer and its best-known computer company. While Siemens' senior executives defend SNIS's position in the group, there is no doubt it is a heavy drag on Siemens' resources, raising speculation that the electronics giant might welcome a partner or buyer for the computer company.

Groupe Bull, under Mr Bernard Pache, its new managing director, is continuing the transformation started under Mr Francis Lorentz, his predecessor, with further rounds of job cuts – 3,000 or 8 per cent of the workforce this year alone. The group lost FF4.72bn ($863m) last year.

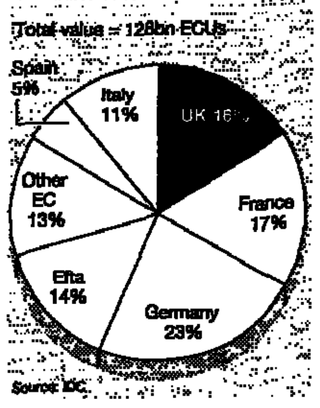
Mr Michel Carpentier, director-general for the IT industries at the European Commission, believes the European industry is at a crossroads. Writing in the European Information Technology Observatory, a new overview of the market, he notes: "Europe's competitive position has declined from 1985 to 1991 with its IT trade balance dropping from minus Ecu 9bn to minus Ecu 27.2bn and with high technology for less than one fifth of European exports compared with 31 per cent and 27 per cent in the US and Japan respectively."

Mr Carpentier says the key weakness in Europe is its inability to integrate research and development and innovation in an overall strategy which both exploits and orientates them.

To which must be added a cautious attitude on the part of its major customers. European companies are less likely to spend heavily on IT without obvious cost justification. While this protects them from the wasteful use of IT seen in many US companies, it can also act as a dampener on imaginative projects.

IT total market in Europe

Total value = 128bn ECUs



Source: IDC

Europe's strength, on the other hand, is its ability to innovate, albeit in a comparatively small number of industry sectors.

The value of the European market is considerable. In 1992, the IT business in the 12 EC countries and the five European Free Trade Association partners amounted to some Ecu 225bn, of which Ecu 128bn went on data processing and office equipment – the traditional IT areas – and the rest on telecommunications.

Europe's bid to maintain a separate identity in IT may be helped by the profound structural changes which are transforming the industry.

● Downsizing, moving from mainframe based operations to data processing based on client-server systems, for example, may prove easier in Europe where there are perhaps only a fifth as many very large mainframe sites as in the US. The technical and managerial choices involved in downsizing are never easy: European computing services companies capable of advising and supporting a customer through a downsizing decision are equal to the best and have the advantage of local knowledge.

● Computers: very large and very small ones will characterise tomorrow's data processing business. Europe has skills in building both.

Advanced Computer Research International, a new company set up in France under the guidance of Mr Jacques Stern, former head of Groupe Bull, is developing a commercial supercomputer based on Digital Equipment's Alpha chip. DEC has agreed to take a stake in the new company.

Acorn Risk Machines, a joint venture between Acorn Computers (owned by Olivetti but based in the UK), Apple Computers and VLSI of the US has developed tiny, high-powered microprocessors which consume very little power and are well suited to consumer products. Apple will use an ARM microprocessor in its "Newton" personal digital assistant.

● Software: fast, effective and economical production remains a global problem. Europe's computer companies are as advanced as any in software development. Earlier this year a group of companies including Sema Group and Logica of the UK, Groupe Bull and Cap Gemini Sogeti of France and Siemens Nixdorf of Germany established a software research institute in Bilboa, Spain, to seek better ways of writing computer software. The idea is not to compete with packaged software suppliers such as Microsoft or Lotus, but to develop better methods of creating very large pieces of bespoke software.

Mr Kirkpatrick of the BCS has no doubt there will be a European computer industry at the end of the century but he questions what kind of an industry it will be. Will it be dominated by software and services rather than hardware development and manufacture? Will Europe's research initiatives be pursued in isolation or in collaboration with with the rest of the world? Who will be the majority shareholder in Europe's industry?

ICL of the UK points to answers to all three questions. Based in Europe, it is owned by Fujitsu of Japan and now derives most of its revenues from software and services. It collaborates with companies worldwide in research, though most of its activities are European-based.

Mr Kirkpatrick emphasises that the future of the European industry depends on a change of attitude rather than technological prowess. "If we in Europe want to be world leaders in this business, we have to be far more ambitious for the business opportunities that informatics offers and rather less interested in the abstract culture that is one of its endemic distractions."

Foreign competitors are gaining ground, reports **Michiyo Nakamoto**

High-cost Japanese lose out

JAPAN'S computer manufacturers – from the giants Fujitsu, NEC and Toshiba to their smaller cousins such as Seiko Epson – have suffered from a dramatic fall in demand over the past year.

The value of sales fell 12 per cent from the year before, according to estimates by the Ministry of International Trade and Industry, as Japanese companies moved to cut capital spending and consumers held back from buying new machines.

Corporations, faced with a pressing need to cut costs amid the economic slowdown, targeted spending on information and communications equipment, areas in which they had invested heavily in the past.

Consumers stopped making new purchases, particularly towards the end of the year as low-priced machines, newly available from foreign companies, raised expectations that prices would fall further and that Japanese manufacturers would also be forced to cut prices.

Manufacturers have found the market situation so difficult that the computer industry association has applied to be included on the Ministry of Labour's list of industries qualified to receive employment subsidies to help tide companies over bad times.

The fall in demand would have been bad enough for Japan's computer industry. But in the midst of the worst economic slump in recent history, the industry has been confronted with a hitherto unknown entity in its home market: foreign competition.

Last year, Apple Computer jumped to third place in the market share league table and some believe it could rise to second place this year.

IBM, Compaq and Dell are other US companies that have created a stir with low-priced models. They have yet to make much impact in terms of sales, but their presence symbolises a changed market environment for Japanese manufacturers.

Like their foreign competitors before them, Japan's computer manufacturers are having to face up to the fact that computers are becoming commodity items.

Until now, Japanese manufacturers were able to charge high prices for their computers and obtain high margins as a result of a relative lack of competition in their home market.

The difficulty of processing the Japanese language kept the domestic market in effect closed to many potential outside competitors.

However, developments in software have made it possible to overcome this hurdle, removing a barrier to competition in the home market.

The result is that unlike in the past, computer manufacturers in Japan will increasingly have to compete on price as well as on the merits of their products.

The situation has exposed a weakness among Japanese manufacturers. When it comes to computers, they are not particularly cost competitive.

Those that depend on high-cost manufacturing in Japan are unable to compete on price. Moreover, unlike IBM, which uses standardised parts throughout the world, Japanese companies use proprietary systems which are more costly to produce.

As a result, Japanese manufacturers looking to offer cheaper computers are likely to turn increasingly to IBM-compatible machines, rather than their own proprietary systems, to complete the lower end of their product range.

Recent moves by a number of computer manufacturers to turn to OEM suppliers for some of their products illustrates the trend.

Earlier this year, Hitachi indicated that it would obtain some of its computer products through an OEM arrangement with IBM. Meanwhile, Fujitsu says it may take OEM supplies of low-priced IBM-compatible machines from Acer of Taiwan.

In addition, the Japanese are facing the consequences of an increasing move towards downsizing and open systems.

These developments pose the biggest threat for the two computer giants Fujitsu and NEC.

Fujitsu, Japan's largest computer manufacturer which depends for 70 per cent of revenues on computers – of which about 30 per cent comes from large mainframes – will have to shift its revenue base from hardware to software, says Mr Koichiro Chiwata, industry analyst at Salomon Brothers, the US securities house.

Meanwhile, the advantages that NEC, the country's largest PC manufacturer with over 50 per cent of the market, has enjoyed with its proprietary system will be eroded, Mr Chiwata believes.

Last year, NEC saw its PC shipments fall 5 per cent; the company's debt rating has been downgraded by Moody's, the debt rating agency, which expects competition to intensify.

Fujitsu and others have already started to place greater emphasis on software and systems to counter the fall of profits from hardware resulting from lower consumption and weak prices.

Fujitsu has come up with a list of charges on 20 different software and after-sale services such as maintenance and repairs. Both Hitachi and IBM Japan have similar price lists.

But it will not be easy for them to convince their Japanese customers to agree on service charges as these have until now been regarded as part of the price of buying a machine.

On the brighter side, in spite of a lingering mood of low consumption, Japan's computer market is expected to recover this year. Dataquest, the high technology consultancy, forecasts growth of 6.6 per cent in 1993. The range of low-cost machines currently available, the launch of Windows and the purchasing cycle will all contribute to the rise in demand, it believes.

As the market recovers, it is likely to become an even more heated battleground between domestic manufacturers struggling to protect their proprietary systems and their margins against the cost advantages and the open systems offered by their US competitors.

Paul Taylor charts the new supercomputer battleground

Massively parallel challengers

UNTIL a few years ago the market for supercomputers, the behemoths of data processing, was a relatively sedate affair involving just a handful of American and Japanese companies led by Cray Research of the US.

But new approaches to supercomputing using alternative technologies threaten to turn it into a fiercely competitive battleground and upset the established order.

Cray still dominates the world market for traditional supercomputers with around two-thirds of the installed base, according to Ms Jane Doorly of Dataquest, the information technology market research group.

She believes Cray's Japanese rivals Fujitsu, NEC and Hitachi, have not made inroads into the North American or European markets because Cray also dominates the software side of traditional supercomputing.

Cray's most powerful machines, the Y-MP C90s, can cost more than $30m each and are capable of processing up to 16bn calculations in a second.

They are used in universities for academic research, by government agencies for example for weather forecasting, and increasingly by industry for design, modelling and other functions which can provide a competitive advantage.

These supercomputers achieve their fast calculation speeds by using one, or a small number of high-power data-processors, 16 in the case of the Y-MP C90, to work through computer code using a technique known as "vector processing".

Because these traditional supercomputers use costly custom-made processors, they are expensive and performance improvements are coming more slowly as designers try to wring more speed from individual processors.

By using different techniques and cheaper standard technology about a dozen companies including Intel, Kendall Square Research, Thinking Machines, nCube, NCR and MasPar Computer in the US, and Britain's Meiko Scientific and Parsys, are building machines which promise to be more powerful than traditional supercomputers, but cost much less.

This new generation of supercomputers works by linking hundreds or thousands of smaller off-the-shelf processors – often reduced instruction set computing (Risc) microprocessors – using a technique known as "massively parallel processing" (MPP).

Unlike vector processing systems which tackle each part of a job in sequence, one at a time, parallel systems divide the problem into small parts and share it out among lots of processors which then work simultaneously.

The industry is sharply divided over the technical merits of the two systems. The supporters of MPP machines claim they offer greatly improved price/performance value and will ultimately replace the monolithic-style vector processor.

Critics argue that they are still largely unproven and that they are much more difficult to programme than vector processors. "Parallel processing is not mainstream, it is for niche applications," says Ms Doorly, "there are still lots of technical problems."

The main problem remains the lack of software to run on the machines. Currently, only about two dozen applications run on MPP supercomputers and only a handful of those have gained widespread acceptance. Software developers are reluctant to write applications for a fragmented market of competing standards.

So far, multi-processor based supercomputers have mostly only challenged Cray's lower powered machines. But some competitors have begun to combine elements of both parallel and vector techniques to challenge Cray's top-of-the-range models.

In particular, Fujitsu's VPP500 supercomputer, unveiled last autumn, combines the two approaches in a technology predictably called "vector parallel processing". The VPP500 has enabled the Japanese company to take a spectacular lead in the race to build the world's most powerful computer.

Fujitsu, in the supercomputer business since 1977, has half of the Japanese and 23 per cent of the world market. It claims its supercomputer is capable of up to 355bn calculations per second. It comprises from seven to 222 vector processors, each roughly equivalent to a conventional mid-range supercomputer arranged in parallel. Fujitsu believes it can sell 50 units over the next three years at between $10m and $50m a unit.

That may well depend on whether the VPP500 fulfils Fujitsu's ambitious performance claims – experts warn that Japanese supercomputers have a reputation for running faster on paper than when solving real problems.

However, Cray has acknowledged that it faces new competitive pressures and is struggling to cut costs. Last year sales fell by 8 per cent to $797.6m. The group reported a $14.9m loss, after a $42m restructuring charge to cover job cuts, compared to a $113m profit the previous year.

Cray reckons its restructuring moves will cut costs by $50m a year but has also begun to rethink its product strategy. It has introduced cheaper, less powerful, entry-level, models costing around $300,000 to compete with the mini-supercomputers made by such companies as Convex Computer. At the other end of the scale it has begun to answer the challenge of MPP machines by developing its own, codenamed the TD3, based on Digital Equipment's Alpha chip which will also combine vector and MPP technology.

It has also established a joint venture with California's Sun Microsystems to build a machine aimed at filling a niche at the top end of the workstation market and to create a "seamless software environment" that will allow Sun systems and Cray supercomputers to work together with increased efficiency.

This is important because the supercomputer manufacturers also face a potential challenge from a technique known as "clustering". This involves linking together separate high-end desktop workstations to form what Hewlett-Packard calls "a loosely coupled, parallel supercomputer."

To develop these systems HP has formed an alliance with Convex Computer, the Texas-based mini-supercomputer manufacturer. Ms Peggy Heppelmann, workstation business manager for HP in the UK, says both IBM and Hewlett-Packard are already selling "a reasonable number" of workstation clusters.

Michael Dempsey on the role of the workstation

Not for use by amateurs

THE computer workstation grew out of the need to juggle daunting figures on a desktop and in a realistic timeframe. In the early 1980s the first option for vast calculations was a very large mainframe or supercomputer. Their processing power is still called upon for resource-hungry design in aerospace, for instance. But impressive performance comes with a price tag of over £1m.

From the outset, the computer workstation was designed to be affordable. The software that unlocked the door to cheaper scientific computing was the Unix operating system, which has now made the breakthrough into commercial respectability. But in 1982 it was the province of the technical fanatics who characterised California's Silicon Valley. Initially unfriendly to the common user, Unix offered the right environment for engineering applications.

Sun was the start-up company that came to symbolise the rise of the workstation. It embodied all the cliches of the West Coast IT entrepreneurs. Launched by enthusiastic programming fiends in jeans, it was the antithesis of the blue chip hardware manufacturer. The market for powerful workstations exploded, taking Sun to a turnover of over $3bn, with 550,000 units shipped in under a decade.

Mr Bill Passmore, Sun's northern Europe vice-president, pinpoints labour savings as a crucial factor in the rise of the workstation. "Suddenly, companies found they could design an aircraft wing by putting a £30,000 a year designer in front of a £30,000 computer." By displaying complicated computer modelling packages on a desktop, the workstation cut out the connection to a mainframe. This bypassed the teams of specialist programmers needed to keep large systems up and running.

More powerful chips have diminished the size of the workstation, abolishing the storage cabinet under the desktop. But the prospect of greater power led some users to apply workstation technology indiscriminately. In the late 1980s boom banks began to invest heavily in purpose-built dealing rooms. Some sites were kitted out with a powerful workstation at every dealing position, which proved an expensive error.

To have sophisticated software running at high speed is only of value if the user knows how to bring that power to bear on his job. In many dealing rooms 90 per cent of staff are quite happy with a conventional PC running a commonplace spreadsheet such as Lotus 1-2-3. The workstation makes sense only if it is driven by the right user.

The dramatic expansion in the capabilities of the humble PC has shadowed the advance of the workstation. With the arrival of the 486 series chip, and its successor Pentium just around the corner, the PC is well and truly in workstation territory. Windowing software and graphics have boosted the worth of advanced applications running on standard office equipment.

Mr Chris Sarfas, desktop marketing manager at Digital Equipment in the UK, admits that Dec's workstation products have superficial rivals in the PC world. "The key differential has always been high performance, but the PC of today outperforms the workstation of three years ago.

"The primary advantage of the workstation over the PC is for the power user, the designer or top-end financial dealer. A PC can take a live video window, but it can't do that and run five other screens incorporating a live data feed."

There is a growing convergence between PCs and workstations, aided by software that combines ease of use with first-rate graphics. The workstation market starts just beyond the price bracket of top-end PCs, at around £5,000 a unit. But top specification systems can cost £60,000. At this level the workstation is intruding on the preserve of mid-range computing and killing off the super-minicomputer of the 1980s.

Not all workstation manufacturers have mirrored Sun's meteoric performance. Earlier this year Next Computer abandoned workstation production after two years. Shedding half its workforce, Next declared it would concentrate on developing software to complement the latest generation of computer chips. it seems that Next was squeezed out by the market clout of established producers and the blurring of identities between PCs and its workstation products.

The workstation may be harassed by the PC, but it is still upwardly-mobile. The key to harnessing workstation technology lies in remembering its roots. It came about as a precision tool for professionals with a processing-intensive job. They are still the right candidates for a workstation's capabilities and price tag.

MID-RANGE SYSTEMS

An unstoppable march

London International, the healthcare group, uses Data 3 manufacturing software from Hoskyns on an IBM AS/400 midrange computer as a cost-saving replacement for an earlier mainframe system, now discarded

THERE was a time when computers fitted neatly into one of three categories. If it wasn't a PC or a mainframe, then it had to be a mini. The decline of the mainframe and the emergence of the powerful workstation as a serious scientific tool have given rise to a new category of system, the mid-range computer.

Mid-range systems have taken the centre stage of business computing. In power and price they overlap with both extremes of IT hardware, nudging aside some top-end PCs and intruding on the domain of the mainframe. The machine that made the mid-range is IBM's AS400. Depending on the configuration, it can cost between £6,000 and £1m. Since June 1988 IBM has shipped well over 200,000 systems worldwide.

Northern Foods owns Express Dairies and supplies quality food to Marks & Spencer and other retailers. It has a £2bn turnover and manages production across 65 operating companies using 75 AS400 machines. They have replaced a fleet of IBM minis and a mix of mainframes from ICL and Digital Equipment.

Mr Alan Earnshaw is Northern Foods' Hull-based IT director. He says the move to mid-range computing has proved highly cost-effective. "The mid-range idea suits Northern Foods' style. We're a highly decentralised organisation. With its high ease of use, the AS400 requires very few technical staff."

Workstations spread access to the system across the site, running a whole raft of stock control applications while Electronic Data Interchange ensures rapid and frequent exchange of data with customers and suppliers.

The change in staffing requirements has been dramatic. Mr Earnshaw characterises the standard local system manager as the site accountant. The mid-range box is happy in an office. A mainframe operates in a purpose-built computer room with dedicated support staff.

With its diversity of business software, distributed workstations and extensive data links to third parties, Northern Foods typifies the mid-range user. It also highlights the decline of the mainframe. "Had there been no mid-range option we would be running several mainframes and be faced with a different order of IT costs," says Mr Earnshaw.

IBM's critics have made much of the declining market for mainframes. The largest computer company in the world grew fat on dominance of the mainframe market only to see revenues undercut by the latest generation of systems. IBM's own success with the AS400 is a measure of the demand for cheaper and more practical processing power rather than a case of a manufacturer undermining its own market.

There will always be a place for the mainframe. Processing vast arrays of statistics or hosting huge specialist programs such as airline reservation systems will continue to require a mainframe processor. But industrial management means buying in off-the-shelf software and a continuous throughput of factory data. The mid-range computer is designed with this function in mind. In particular, its operating system is written to host the very programs that business users find most practical.

The London International Group, the large medical equipment to film-processing concern, has followed the downsizing path, dispensing with IBM mainframes in favour of AS400s. But taking this plunge was not easy. Mr Pratt, in charge of London International's IT, was involved in writing its custom-built mainframe software application.

A mid-range program was installed from an external software house. "There was over 10 years worth of loyalty to that software on the mainframe. We had to tell the end-user to change the system he was used to working with." Mr Pratt still says the move was well worth this disruption. Without the hideously complicated mainframe operating system to worry about he can shop around for business software packages to meet emerging requirements. "Now we don't spend time designing software inhouse we can concentrate on implementing the right system, not trying to develop it ourselves."

The mid-range threatens more than large hardware. It has also decimated one species of employee. Mr Pratt notes the demise of the systems programmers who kept mainframe applications functioning. "They were skilled boffins, very peculiar animals." They may be missed for the colour they added to computing, but the cost of finding and retaining their esoteric skills was an incentive to change IT purchasing policy.

The march of the mid-range system seems unstoppable. But while the mainframe will always be around to cater for some needs, so the term minicomputer is still applied to small business computing. Hewlett-Packard splits its HP9000 range between minis (£20-100,000) and mid-range systems (£150,000-1m). The contemporary mini delivers much more power than its predecessors, but HP finds it useful to preserve the term to define user communities.

If specialist programmers have been a casualty of the mid-range revolution, purchasers have felt the benefit. Taking the processing power from an air-cooled computer room can only bring it closer to the business customer's real needs.

Michael Dempsey

MEMORY CARD TECHNOLOGY

Small is beautiful

PERSONAL computer owners have been used to the idea of systems that seem to get smaller, faster and more powerful every year – but recent advances in hard disk drive and add-on memory card technology have accelerated the pace of this development tremendously.

One example of this is a new device that is smaller than an average matchbox, weighs less than two ounces and can store the equivalent of 14,389 typed pages. Developed by Hewlett-Packard last year, it is one of the world's smallest hard disks – able to store 21.4 Megabytes of data in a card that is only 2 inches long, 1.44 inches across and 0.4 inches high.

Known as the HP Kittyhawk Personal Storage Module (PSM), it is typical of the growing number of computer add-ons that are only a little larger than the average credit card. These peripherals are typically fast, slick, expensive and small. The computer industry is so convinced that users want these tiny devices that they are developing them in unprecedented numbers.

Over the past year these credit card-sized add-ons for palmtop and notebook computers has been produced to conform with the Personal Computer Memory Card Industry Association standard. They include cards that add hard disks, network connections, modems and other crucial functions to tiny PCs. The PCMCIA expansion slot is basically a 68-pin tiny replica of the AT expansion bus used in most 386 and 486 desktop computers.

PCMCIA was formed in 1989 as a non-profit trade association aimed at establishing a worldwide memory card standard for the PC industry. The standard defines the size, pin assignments, electrical requirements, protocols and file formats of credit card-sized add-on cards. More than 130 manufacturers, semiconductor companies, software suppliers and systems integrators have joined the PCMCIA, which two years ago reached an agreement with Japanese standards group JEIDA on adoption of the specifications.

The PCMCIA membership list is impressive. The group's executive members include Fujitsu, Intel, IBM, Microsoft, Mitsubishi, Polaroid, Poqet, Sharp, Texas Instruments and Toshiba. Associate and affiliate members include Apple, Commodore, Compaq, Epson, Lotus Development, Motorola and WordPerfect. The breadth of support the group appears to enjoy across the industry could make it succeed where similar previous attempts have failed.

According to Mr Bruce Sinclair, Dell Computer vice-president for Northern Europe, PCMCIA has been successful because it offers practical sense for the computer industry while helping out computer users at the same time.

He says that producers of portable and hand-held computers no longer have to "re-invent the wheel" every time they want to add new capabilities to the systems. With PCMCIA, chances are that a third party company has already designed that part that is needed to make a new solution possible. "It is one of those solutions that makes sense for everyone – being able to add specialist communications functions designed to a common standard is just brilliant for everyone."

Assuming that PCMCIA becomes established as a standard, the question arises of what PCMCIA cards will be able to do. To start with, their abilities were very modest – offering only 128K of storage. Within the past year, 1 and 2 Mb PCMCIA cards have become more common – and 4 Mb are now starting to be offered.

But PCMCIA is not just a standard confined to defining silicon storage. Slots conforming to the standard can be designed to be used as general purpose expansion slots – using six spare pins on the interface that cater for input/output devices such as network adaptor cards and modems.

Despite having to do far more than just provide memory, these cards are the same physical format as the current memory cards. The commitment to produce such devices is demonstrated by the membership of Intel, Hayes (the modem manufacturer) and 3Com in the PCMCIA group.

Release 2.01 of the PCMCIA specification, issued early this year, includes a refined "execute in place" facility – which allows software companies not only to put their software onto PCMCIA cards, but also include on the card the RAM needed for the application – so that on a PC-compatible handheld machine, for example, you can run Lotus 1-2-3 without using up any of the system RAM on your pocket PC.

Release 2.01 also offers better support for flash memory and improved low voltage operation. Further definitions are provided for the input/output capability of the cards – which, its developers say, is similar to that of an extended industry architecture expansion bus on a PC. By "multiplexing" on the 68 pin connectors, you can now plug in cordless communications systems (such as pagers), network cards, modems and other devices.

The final issue is a psychological one. How many users or corporations will be willing to pay $500 to $1,000 for add-ons that bring capabilities to handheld computers that they can get much more cheaply in desktop systems? Also, there is likely to be resistance to expensive add-ons that are so small they can easily be lost through a hole in a suit jacket – or even left on the bus by accident.

The best advice for those buying PCMCIA cards is to think of them as you would of any other add-on circuit board for your desktop system. Buy from reputable dealers and get them to install your PCMCIA cards – just as you would add-on cards for the inside of your existing personal computer. That will ensure you treat the equipment with the respect it needs to survive life in a pocket or notebook PC. By comparing the PCMCIA version of the add-on with the same item for a desktop system, you get a good idea of the price premium you'll pay for "going portable".

Geof Wheelwright

Personal computers: the next consumer blockbuster?

Every home should have one

AS THE personal computer revolution celebrates a dozen years in business, it is starting to shift its attack on the status quo from the office to the home. For years, so-called "futurologists" have predicted that the PC could change the average person's home life – but only recently has the technology been invented to meet that challenge.

Personal computer technology – and its recent "ease of use" ideas – are being used in everything from automated bank teller machines to handheld "personal data assistants", televisions, videotape recorders and microwave ovens. The computer industry is being particularly successful at popularising the use of pictures to control equipment.

Many modern video recorders, for example, now have either a built-in "screen" for selecting which television programmes their users wish to record or offer the ability to display and enter this information on a television screen.

Pictures such as that of a runner at the starting blocks of a race (to use that, you should enter the start time of a programme) and the same runner reaching the finish line (where you are supposed to enter the time when the programme ends) are typical of the "icon-based" approach to controlling consumer devices that is evolving from the PC world.

Among the most voluble leaders of the computer industry on this subject is Mr Bill Gates, Microsoft chairman and co-founder. The success of its picture-based operating environment for personal computers – Microsoft Windows 3.1 – gave the company a revenue growth last year of $950m.

Mr Gates is working to incorporate Microsoft Windows technology into a wide variety of electronics products in both the office and the home. His aim is an environment where fax, photocopier and telephone all run some form of Windows – and are connected to one another. Meanwhile, the telephone PABX shares its phone directories with the electronic mail and voicemail systems. Both are available to Personal Information Management products for dialling by PC modems.

The most intriguing of Mr Gates' office equipment notions is the handheld Windows machine – which he suggests would be not unlike Apple Computer's planned Newton hand-held computer. The Apple system allows users to control it through the use of handwriting on the screen. But Mr Gates says this is actually a limitation. "Newton relies on the weakest part of the system to do the most work – I prefer structured interfaces on modeless devices."

It is clear, however, that projects which marry personal computer technology to office or consumer electronics technology will require partnerships between computer companies and those in other industries. Thus, Apple Computer recently struck an agreement with electronics giant Toshiba to help bring its software expertise to the Japanese market for "personal digital assistants" or PDAs.

A number of large manufacturers are counting on these PDA systems growing fast in popularity – with Hewlett-Packard, for example, recently releasing its 100LX series hand-held computer with built-in electronic mail.

The key to their success is their built-in communications functions. The EO system developed by AT&T in the US, for example, marries pen computing with cellular phone technology to allow users from anywhere to read electronic mail – as well as upload and download information and carry out standard computing tasks. All of this happens by using a machine small enough to fit in your hand and entirely controllable by pointing at pictures.

The growing number of US and European software companies in partnership with Japanese manufacturers indicates how the market for "picture-based control" of electronic devices will advance. When pictures are used for control, they are far more international. Just as certain international symbols are used in automobiles for headlights, windshield wipers and brakes, common symbols in the future could be used to control computers, video recorders, refrigerators, radios and any other device that uses software.

In fact, some futurologists expect more and more consumer electronics technology to be built around the PC – or at least to use a form of picture-based control as an underlying control technology. They suggest, for example, that it is ridiculous for people to have three remote controls in their home (one each for the TV, the VCR and the CD player).

Instead, people might in future have a few wall-mounted, colour flat screens in their house that will be used for television, video games and information management. The controls for all home systems would be condensed onto a single hand-held controller running picture-based personal computer software.

But many technological issues need to be settled before then. These include international decisions about the resolution of high-definition TV, the cost and reliability of large, colour screens and regulatory issues about their use.

In the meantime, you can expect personal computer technology to appear in almost anything that has electricity running through it – and pointing at pictures to become the internationally standard way of controlling them.

Geof Wheelwright

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PERSONAL COMPUTERS

The clones feel the heat

THE $50bn-a-year world personal computer market is in ferment. Prices are falling again, new and more powerful microprocessors are arriving, distribution channels are changing and the long predicted wave of consolidation may have finally begun.

PC prices have been dropping sharply in most markets for the past two years. Although the pace is likely to be slower this year, most analysts expect a further decline of 10 to 15 per cent in Europe in 1993.

However, says Mr Chris Fell of Dataquest, "The amount spent by customers is falling much less quickly because people are trading up." This is because many customers are choosing higher specified machines – for example those with faster microprocessors, bigger hard disks, larger screens and accelerated graphics cards – rather than the budget entry level machines.

In addition, though some price-sensitive customers will continue to buy from the "ultra-clones" – small companies which build a PC from commodity-style components, mostly manufactured in the south-east Asia and sold off the pages of computer magazines – many business customers appear willing to pay a small premium for an established name – providing they feel they are getting value for money.

Over the past year IBM, Compaq, ICL and Olivetti have hit back at the cut-price clone makers with low-price and highly competitive machines of their own. Most established PC manufacturers now have two or more distinct product lines aimed at different segments of the market.

"Apple, IBM and Compaq all now have competitive products," says Mr Fell, who believes many customers are now looking at other differences like bundled software and after-sales service. "We are back on the price-performance curve," he says.

But tumbling prices, slim margins, shortening product cycles and the evaporation of customer loyalty are taking their toll, ensuring that only the most nimble survive. Each month a steady stream of small, and some not-so-small, clone manufacturers on both sides of the Atlantic fail or pull out of the PC market.

Last year's price cuts left a number of clone markers including Everex, Tandon and Zeos in financial difficulties. Tiko in the UK went bust. Even some big manufacturers such as Olivetti in Europe admit they do not make money on their PC business.

Mr Wyn Griffin, general manager for major accounts at Olivetti UK, says corporate buyers "just buy for the occasion, there are no long-term contracts any more." He adds that Olivetti, which also manufactures PCs for sale by Digital Equipment in Europe, makes its money in the UK from providing add-on services and applications to its customers.

Olivetti's agreement with Digital, with the latter taking up to a 10 per cent equity stake in the Italian group, is one of a growing number of strategic alliances which have become a feature of the global PC industry and reinforce the view that the inevitable process of consolidation has begun.

Within five years, 90% of PCs could be supplied by just three companies. The race to decide who will be the survivors has already begun

By the middle of the decade some in the industry like Mr Bruce Sinclair, vice-president of Northern Europe for Dell Computer, predict that the world PC market will be dominated by just a handful of players. Within five years nine out of every 10 PCs could be supplied by just three companies and the race to decide who will be the survivors has already begun.

Despite the risks, no company wishing to remain in the forefront of the world computer industry can afford to ignore the PC sector. According to Dataquest, the information technology consultancy, the PC accounted for 44.5 per cent of worldwide computer industry revenues last year – nearly as high a percentage as mainframe and mini-computers combined.

IBM is still the world leader in terms of PC sales, with annual PC revenues of $7-10bn and a worldwide market share of about 12.4 per cent. It is followed by Apple (11.9 per cent), Compaq (6.6 per cent), NEC (5.1 per cent) and Dell (3.5 per cent), according to Dataquest.

Overall, the PC market grew by a relatively modest 7.1 per cent in value terms to $46.5bn in 1992, says Dataquest, but PC shipments in Europe rose by 12 per cent to 9.4m units last year with much of this growth occurring in the fourth quarter.

The falling price of basic PC hardware highlights the increasingly important role played in the industry by other companies including Intel, the US semiconductor manufacturer which makes the microprocessors used by most PCs and by the software companies such as Microsoft with its MS/DOS operating system, Windows "environment" and wide range of business software packages, and Novell, which sells the most popular networking software.

In the office, desktop PCs are increasingly linked by local area networks, providing a huge market for the operating system and business software companies.

Outside the office, the advent of lightweight notebook computers has delivered fully functional computing power "on the move". About one in five PC sales today are portables, and the proportion is increasing.

Portable computing has been made possible in part by advances in silicon integration which have also fuelled the steady move towards more powerful processors. Intel has cultivated this process as part of its marketing strategy, developing a range of upgradeable "clock-doubled" processors built around its top-of-the-line 80486 microprocessor – soon to be displaced by the new Pentium processor.

However, Intel no longer has the PC processor market to itself. New chips from its rivals, AMD and Cyrix, have added to the recent proliferation of PC processor types and Motorola, the second largest chip manufacturer, has recently announced its entry into the field with its first Power PC microprocessor, developed in conjunction with IBM and Apple Computer.

The old PC distribution channels have also come under increasing attack. Direct mail order sales have helped some companies to challenge more lethargic rivals. Dell, the Texas-based group, more than doubled its sales last year to $2bn.

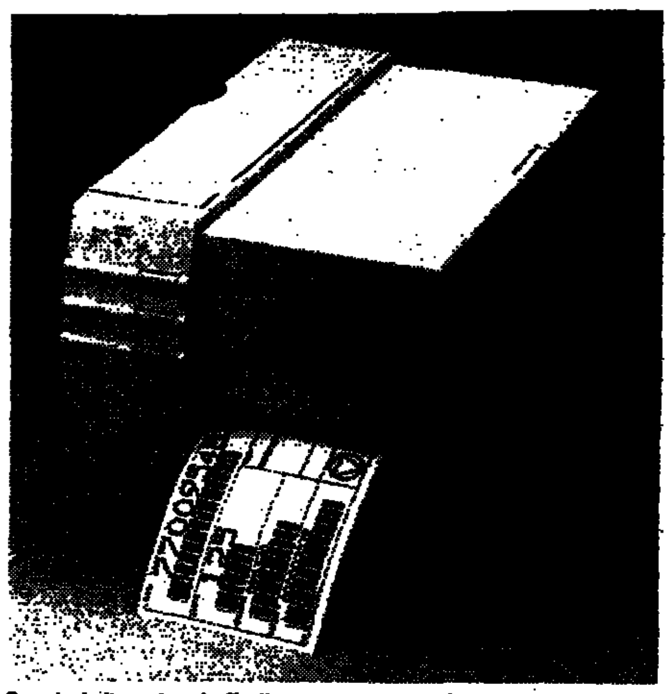
Most companies, including Compaq and IBM, now either sell their machines directly through the pages of computer magazines or allow other "off-the-page" resellers to conduct "remote sales" on their behalf.

According to a new report on distribution by Dataquest, direct sales now represent more than 20 per cent of total PC sales in all the major European countries except Italy. However there are signs, particularly in the US, that direct sales may have peaked. The fastest growing distribution channel in the US today is the PC superstore.

By the end of 1995, predicts Mr Steve Brazier of Dataquest, superstores will account for 20 per cent of all PC sales in the US. He believes Europe will follow suit; in the UK the first PC superstores have already arrived.

Paul Taylor

"Fastest in the world" is the claim made for the new 2140 Magnetic ink character recognition printing system from Siemens Nixdorf



Speed, clarity and cost-effectiveness are claimed for Facit's D450 thermal transfer printer, the first in a series for tough applications

PRINTERS

Users upgrade as prices fall

DESPITE the recession, the printer market has remained buoyant. As prices fall, users upgrade, writes George Black.

The market is split into three roughly equal sectors: dot matrix, inkjet and laser. Sales of dot matrix machines have fallen sharply, but this has been offset by higher sales of inkjet and laser models.

While the volume of printer sales has gone up by around 20 per cent, prices have come down around 30 per cent, so the market has probably grown only slightly by value.

Increasing demand for better quality documents is the main force which is driving sales up. Dot matrix printers are becoming steadily less popular, even though prices are very low and the quality of output has improved.

Inkjet is much the fastest growing sector by units, up 85 per cent last year, according to market researchers Romtec. These machines are bought mainly by small businesses and home users who consider laser prices still too high but want better quality than they get from their old nine-pin or 24-pin dot matrix printers. Inkjets now offer 300-360 dots per inch.

The boom in sales of inkjet models is also related to the fact that they are quieter than dot matrix models, which is especially important for home use. Colour inkjet sales have more than doubled in the past year; output is slow, but many users are willing to sacrifice speed for colour. Colour laser printing is still prohibitively expensive for most purposes.

However, inkjet is now seen by many users as a low-end solution. A laser-printed document looks printed where an inkjet-printed document looks no more than nicely typed. Laser printers are replacing inkjets in many businesses as they become cheaper.

Lasers are classed as a "mature" market compared to inkjets, but they are nonetheless the fastest-growing sector by value of sales.

Laser quality is also improving, which matters to users who want to print complex graphics; 300 dpi is the current standard, 600 dpi is spreading.

Many large companies looking for economies during the recession have been sharing laser printers among staff on their local area networks. To do this, they need machines capable of eight or 16 pages per minute output, rather than two or four pages output by the slower ones.

Ms Nicky Ayre, Hewlett-Packard's UK peripherals programme manager, says that network managers now spend a lot of their time dealing with printer problems. The result is a growing market for slot-in cards, which report printer faults to the network manager and allow many of them to be solved by remote diagnostics.

Prices keep being pushed down by strong competition and the fall in the cost of processors and memory. The market is extremely price-sensitive and most suppliers have to offer discounts.

Some smaller players may soon find the market very tough

Laser prices have fallen sharply; most now cost £600-£700, some as little as £400. Average inkjet prices are £300-£400, but some are as low as £250, and dot matrixes £150-£200.

This could be almost as low as prices can go because of the inherent manufacturing cost. High volume manufacturers can take this, but some smaller players may soon find the market very tough.

Hewlett-Packard remains clear market leader, with around half the sales of lasers and around 40 per cent of the whole market by value. Its dominance is re-enforced by its close relationship with Canon, which makes its laser printer engines.

In the past couple of years a number of printer makers have begun to market their products by stressing environmental aspects.

Kyocera, a Japanese laser printer manufacturer, highlights its ability to use 100 per cent recycled paper and its use of toner containers which can be burned, rather than non-biodegradable ones which end up as toxic landfill.

Mr Phil Murphy, Kyocera's UK general manager, says that many large firms now have environmental representatives who are taking an interest in these issues. He also points out that there are European Commission directives to member states to increase the amount of recycling of paper and packaging.

Phil Manchester assesses the enthusiasm for object orientation

Big Idea changes software

There is a basic law in information technology. When a new "Big Idea" comes along its progress follows a predictable pattern: initially, there is unbridled enthusiasm from the technologists who advocate it; this is followed by a process of bandwagon building – as supplier companies' marketing departments recognise the Big Idea's potential as a way to increase sales.

Finally, there is an inevitable backlash – as the Big Idea fails to live up to the inflated expectations pushed by the marketeers. Artificial intelligence, expert systems, computer-aided software engineering and many other examples have followed the same pattern.

Object-oriented computing – a relatively new way of designing information technology systems – could be an exception. As a Big Idea, it is approaching the end of the second phase – with most manufacturers now claiming that they offer products which may be described as object-oriented. It is time, therefore, to look for signs of the backlash.

But, so far, there are no signs that the initial enthusiasm for the object-oriented approach has started to wane. On the contrary, the bandwagon is rolling along nicely and the first experiences of the genuine application of the object-oriented approach are beginning to surface. Generally, the results appear to be positive.

Mr Kerry Williams, an object-oriented technology specialist with the Swiss Bank, reports significant success

It's time to look for signs of the backlash. But so far there are no signs of waning enthusiasm

with the approach. "The bank decided to move to the technology about two years ago and we have delivered about a dozen applications using it," he says.

The applications are mainly concerned with the bank's front office operations and what Mr Williams describes as applications "which fill the vacuum between the front and back office". He is reluctant to be more specific because the bank is conscious of the competitive advantage that the new software brings.

There are a growing number of examples of similar successes using the object-oriented approach. And if the number of conferences on object-oriented design, scheduled over the next few months, is an indicator, the level of interest is increasing and what might be termed a "paradigm shift" is in the wind.

Academically-minded purists will disagree but the essence of the object-oriented approach is deceptively simple. It means thinking about information processing systems as a set of well-defined components which can interact with each other. Applications can be constructed from these components in the same way that a child builds a toy from a set of Lego bricks.

OBJECT-ORIENTED EVENTS, 1993

- Object-Oriented Methods: Do they work in practice?, June 9-11, Swallow International Hotel, London (Object Trainers: 0491 410222)
- Object World, June 14-17 Moscone Center, San Francisco, California. (Object World:(US) 0101 508 820 4300, (UK) 081 570 2182)
- Object Expo Europe, July 12-16, Queen Elizabeth II Conference Centre, London (Object Expo: 0306 631696)
- Object World UK, October 13-15, Heathrow Penta Hotel (Object World: 081-570 2182).

Any part of an IT system can be viewed as an object – from a complete application like a sales order processing system down to a simple program code routine to calculate a date. The object-oriented design approach provides a formal theoretical base with which to define and build objects. It also fits well with current pre-occupations in IT systems design such as the client-server architecture and networked systems.

Advocates of the object-oriented approach claim that it makes building IT applications much easier because software "objects" can be directly related to the "real" world, rather than traditional software design methods which concentrate on technology issues.

If successful, the object-oriented approach has profound implications for the future of software and IT systems in general.

One of the main advantages of object components is that they can be used by many different applications. This means that a program to prepare data for a Postscript laser printer can be used by many applications. This technique is widely used in personal computers which use Microsoft's Windows environment. Similarly, the same "spelling checker" program or object can be used by a word processing package, a spreadsheet and a presentation package.

Inevitably, this means that it becomes more difficult to define exactly what an "application" is. Is it a complete "solution" with all of the program code required to perform the task "built in"? Or is it a set of objects which are brought together to perform the task as required?

A recent paper prepared by the Object Management Group (OMG), an industry organisation set up to promote object-oriented technology, suggests that future software applications will conform to the latter model. It uses the concept of "electronic brokerage" of software components – akin to the Stock Exchange – as its starting point: "We see this affecting software developers

There are profound implications for the future of software and IT systems in general

in the first instance. They are looking for ways to put new software products together by leveraging existing applications," explains Mr Richard Soley, technical director of OMG and co-author of the paper.

"An electronic brokerage system would allow them to 'discover' what objects are available and what they can do. By delivering them electronically or with CD-ROM, they can assess whether the software is suited to their purpose."

Mr Soley says that this has significant implications for software distribution channels.

"It means that you can distribute software to a mass market with very few overheads. It also means users can benefit from being able to choose from a variety of different component objects to suit their needs."

Such a system does, of course, assume a standard infrastructure to support software components. The OMG says it is well on the way to building this infrastructure and has been remarkably successful in persuading the IT industry to adopt common standards.

"You will see brokerage-type operations beginning to emerge this year and, within two years, end-user companies will see the effects," says Mr Soley.

If this forecast is correct, then the Big Idea behind object-oriented technology could be the one exception that proves the rule.

OPEN SYSTEMS

Rival threatens Unix

DESPITE their long history, open systems are only now becoming a meaningful reality. The trap of closed proprietary systems, which held most large computer users in thrall for three decades, is finally fading to be replaced by a freer, more flexible world of open systems, writes **Phil Manchester**.

In March this year an important group of leading computer manufacturers and software developers announced its intention to put differences on one side and co-operate in devising a Common Open Soft-

Devising standards on which all could agree was surprisingly easy

ware Environment (Cose). Hewlett-Packard, IBM, Santa Cruz Operation, Sunsoft, Univel and Unix Systems Laboratories agreed to work towards a Cose "standard" based on the Unix operating system.

Cose aims to define broad standards for desktop user interfaces, graphics, networking, multimedia computing and systems management. Theoretically, any Unix software developed by the Cose companies will be able to run on the other member companies' platforms.

But there were two notable absentees from the initiative. Microsoft – which is working on a rival operating environment based on its Windows software – was not invited and neither was Apple.

The Cose announcement is the latest in a succession of alliances aimed at promoting a single software environment for the computer industry – a factor which has led the move to be viewed with some cynicism by commentators and users. IBM and HP were already working together within the Open Software Foundation, an alliance set up in the late 1980s to promote their respective "flavours" of Unix.

OSF was established in competition with AT&T, the originator of Unix, which was promoting its own standards under an alliance called Unix International. Its members included USL (now part of Novell) and Sun Microsystems – Sunsoft's parent company.

The two rival groupings have been moving together for two or three years – with Unix International adopting several OSF-sponsored standards and vice versa.

The Cose standard, therefore, is a ratification of a process which was already well under way.

The movement towards open systems began in the early 1980s, when many companies noticed that their ability to take advantage of information technology advances was constrained by the inertia of their investment applications based on single manufacturer systems. If they were dissatisfied with their hardware supplier, there was little they could do about it. They either threw everything away and started again or they continued to dig themselves deeper into the proprietary systems hole.

The advent of personal computing served to highlight the disadvantages of a fragmented market. The quick acceptance of the IBM/MS/DOS personal computer boosted the market and gave manufacturers and software developers a common technology to build on.

More important, it meant that customers could – to a large extent – rely on compatibility across different manufacturers' systems. At the same time, it brought software prices down because development costs could be amortised across a much large market. Much of the activity in open systems over the last two or three years has been aimed at extending the idea of a common open standard to large computer systems.

Mr Bernard Guidon, European marketing manager for Hewlett-Packard and a key participant in the Cose discussions, says that the move was a response to pressure from customers: "Large global companies have systems from many different manufacturers and want their applications software to be consistent across different hardware," he explains.

"If we want the Unix market to grow – then we need to get our act together and come up with a common Unix."

He adds that it was surprisingly easy to get technicians from the various Cose members to devise a set of standards on which everyone could agree.

"We told them not to look at what they had done in the past – but to work on the best technology for the future."

The simple fact that all of the participants were already working with the Unix operating system – despite small, annoying differences between the different versions – made

A smooth upward migration path from personal computers

things easier.

Unix has been synonymous with open systems since the mid-1980s when it was widely adopted by leading manufacturers as a way to offer a common platform to build applications on.

But there is a growing school of thought which runs against Unix – particularly with the increased dominance of Microsoft in the operating systems market. About 200m personal computers around the world use Microsoft operating software – either in the form of MS/DOS or the more recent Windows environment. Microsoft hopes that they will move on to its Windows NT environment – once it becomes established. Windows NT offers many of the features which have made Unix attractive as the foundation for larger computer systems.

Microsoft has good reason to feel confident that it will prevail. Software application developers are strongly committed to re-developing their products to work under Windows NT and many users will be looking for a smooth upward migration path from their current personal computer systems.

But Mr Guidon is also optimistic. He expects Microsoft will be forced to move closer to Cose standards. "Large companies will put pressure on Microsoft to conform in the long term," he predicts.

HUMAN MACHINE INTERACTION

Myth of the panacea interface

EVER since someone connected a television screen to a computer, the search has been on for a computer that is easier to use. The major development of the past decade has been the launch of the "user friendly" Apple Macintosh. The use of a mouse to control a "desktop" has since spread to IBM-compatible PCs in the form of Microsoft's Windows.

Each succeeding generation of microprocessor has brought the interface between machine and man that much closer. The launch of the latest portable computers – personal digital assistants – has introduced a new challenge to the desktop, that of the notebook and pen.

PDAs such as EO's Communicator and Apple's Newton have no keyboard. Instead, you write on the screen and the handwriting is translated into neat computer text. Mr Hermann Hauser, chairman of EO Europe, describes the Communicator as an "active book". The philosophy, he explains, "uses the metaphor of the book. The page itself is an effective unit of information; it is numbered and grouped into chapters.

"Using the Communicator is just like using a notepad. It is like a book because it can present a lot of information without your having to input anything. The active part comes from being able to edit and reformat the information. Also, you can link parts together using a hyper-text system and use multimedia with voice annotation and video."

The Communicator screen looks like a notepad and has a "book shelf" along the bottom. Pages are "turned" by touching the screen with the pen to the left or right.

Mr Hauser compares the idea to the Macintosh. "The Apple desktop metaphor is successful and now it is 10 years old. It is good for the work it does, but the book opens up to more people and is easier to use. For example, there is no loading and saving of files. Instead, you go to part of the book. Saving still goes on, but it is hidden from the user."

But the pen has its limitations. Mr Charles Brennan, chairman of the British Computer Society's interest group on human computer interaction, comments: "The use of pens is touted by some as an improvement, but it's really a solution to the fact that you can't fit a keyboard on a small portable. It introduces as many difficulties as it solves."

One problem is how to represent the volumes of data which computers can access. One compact disc can store 600 times as much information as a floppy disc, enough for a thousand novels. "The book metaphor doesn't solve that, nor does the desktop," says Mr Brennan. "You have to go beyond the real world. You cannot look at a library and know where to go – you have to use the computer as a support system."

Researchers are already using virtual reality techniques to represent large amounts of information as three-dimensional spaces. For example, the human brain can be modelled as a structure for doctors and then "flown around" with heat or light used to highlight areas of inflammation.

As well as looking for new designs, work is concentrating on methodology and standards. There are three major strands to this.

The first strand is building in "usability". Mr Paul Seaton of System Concepts in London has worked on this under a project partly funded by the DTI. "At present, a lot of bespoke system development for big corporates is done in-house. The development kits are promoted as being able to do the whole job, but there's a lot more to it. Psychology and ergonomics are concepts which are alien to these people. Companies such as Microsoft and Apple recognise this, but in-house developers don't."

Existing system design methodologies leave the human interface to last, he adds. "You must move away from the technology and support the task, not impose extra complications such as codes and jumping between screens to do something that can be done on a single sheet of paper."

The second strand is finding ways of assessing usability. Mr Martin Maguire of the Husat Institute at Loughborough University says researchers there have adopted four criteria:

- ☐ User performance: usually measured by the time taken to carry out a task;
- ☐ User satisfaction: responses to a questionnaire produce scores for efficiency, control, learning, helpfulness and satisfaction;
- ☐ Cognitive workload: breathing and heart rates are taken to measure stress and mental effort. This is particularly important for safety-critical systems, such as for air traffic control;
- ☐ Analytic: a computer model of the user interface and tasks is built to see how well the system performs. This can be done without the need for user trials.

These measures would be applied by software developers, or by companies commissioning software as a way of testing performance.

The third strand is the establishment of formal standards and trying to tie in usability to open systems and total quality management. A European directive which came into force this year (90/270/EEC) already contains requirements relating to usability. Also, a working group is developing an international standard (ISO 9241) dealing with software ergonomics and the man-machine interface.

Ultimately, however, software developers have to work harder to understand people. "You can't solve usability by a panacea interface," says Mr Brennan. "You need to approach the big picture; recognise the organisational aspects, the way people work and address the tasks that need to be done."

** As part of the DTI-run Usability Now scheme which ended last year, an information centre was set up on ergonomic issues. Contact Richard Wilson, Scottish HCI Centre, Department of Computer Science, University of Glasgow, Lillybank Gardens, Glasgow G12 8QQ. 041-339 8855.*

Tony Quinn

CLIENT-SERVER COMPUTING

The user-friendly service

THE Abbey National is a building society turned bank with 700 branches and 12,000 PCs. The branches service a wide variety of customer needs, and the PC network is the route that Abbey National uses to meet those needs.

Since 1987, Abbey National has invested £100m a year in IT, with the aim of bringing all its computer resources to bear on that network. Its strategy is client-server computing. Using powerful host computers to back up rings of PCs, each branch offers Abbey National counter staff a variety of programs with a common interface.

Staff learn only how to work with one system. Whatever new function they move to within the branch the software remains familiar. This leaves them ready to cope with any request from a customer.

Mr Mac Millington is director of retail banking systems at Abbey National. He believes that the key to client-server computing lies in the ability of software to bundle together different functions. His PCs are linked through the local host computer to the entire national network. So the ultimate hosts are a bewildering array of large mainframe processors.

Mr Millington emphasises that in the client-server scheme of things these systems are no more than large servers. "True client-server computing comes about when it all looks the same to the end-user. Most cashiers wouldn't know which mainframe the data is on – and they don't need to. That's the job of our IT people."

He relies on Olivetti for the thousands of PCs and the software that binds those terminals to the hosts and the bank's entire network. "The key is to glue all the applications together so what the user sees is one homogeneous system. That's why we chose this Personal for Banking suite of software. Olivetti understands the key is to make the whole structure transparent to the user."

"Most cashiers wouldn't know which mainframe the data is on – and they don't need to. That's the job of our IT people"

The scale of the operation becomes apparent as Mr Millington reels off the list of mainframe and core system suppliers that Abbey National uses.

Large systems from Unisys, IBM, Amdahl, Stratus and Teradata all feature in the bank's IT arsenal. These can store and transmit huge quantities of data, but if the communications link between central computer sites and the branches fails, the local operations can continue relying on branch hosts. Each branch server has a link to "foreign" hosts, providing external data feeds such as Prestel services.

Mr Millington regards this durability as a critical aspect of client-server operations. "This allows us to give the service we want. If the host line is down the branch can still keep up with customer queries because the client software is at the front end."

The arrival of the powerful 386-based PCs that Abbey National uses was crucial to the client-server philosophy. Networks of dumb terminals, providing whatever programs a mid-sized 32-bit processor or large mainframe could store and transmit, were the standard manner of distributing an institution's data. This set-up became obsolete as the PC began to outstrip the old generation of mid-range computers. Once technology could offer local intelligence, the client level of the operation took on a new value.

Abbey National staff no longer have to sign off and on when moving from mortgages to personal banking. The common interface generated by the PB software and supported by the processing power of the client PC keeps every service in the one environment. The applications reside on the client PC while the server, again a PC but dedicated to one task, holds all the branch data.

In the old, mainframe-driven view of the world, the end-user was out on the edge. Now client-server computing has brought the user and his applications into the centre of things, with every other device, right up to mainframes, regarded as a necessary peripheral. With software development focused on aiding counter staff, client-server computing should give the consumer a quicker and cleaner service.

Michael Dempsey

Paul Taylor assesses the prospects for a market for which estimates vary wildly

Pen computing is still in its infancy

WITHIN two to three years, it should become clear whether pen computing can provide a real alternative to computer keyboard input, at least for portable computing.

Over the past 18 months the hottest products unveiled at computer trade fairs and press conferences have been those operated by moving a pen pointer across a touch-sensitive screen or pad.

Portable computer manufacturers, including industry heavyweights Apple and IBM, are racing to deliver computers which take their commands from a cordless stylus-style pen rather than a keyboard.

Some market researchers have predicted that 1m pen computers will be sold by 1995, but the market is in its infancy and the estimates vary wildly.

Despite the slow start, hardware manufacturers are pressing ahead with pen-based machines

Mr Jeff Goldburg, Dataquest's mobile computer specialist, describes the current state of pen computing as "a lot of hot air and posturing." It "is giving people inflated expectations," he warns.

He believes that 1995 or 1996 could mark "a watershed". By then, he says: "We will find out whether pen-based machines will come down to a price people can afford."

There is no doubt that one reason why sales of pen-based machines have been slow to take off is cost. Most of the early pen-based tablet computers have price tags around the £2,500 level – a substantial premium over the price of a basic notebook computer with a keyboard – or are hand-held machines with no big advantages over traditional electronic organisers with keypads.

Other problems include a lack any software standards in the embryonic pen computing market, the difficulty of producing software capable of reliably recognising cursive (joined-up) writing, and the underlying doubt about whether there are any real applications for the technology.

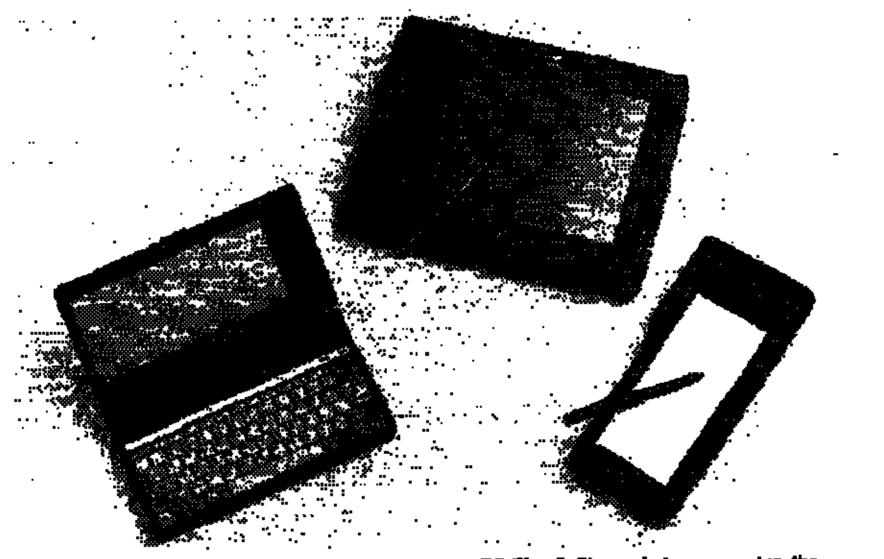
Aside from the individual proprietary systems used by some manufacturers, there are at least two rival "standard" operating systems for pen-input devices, Microsoft's Windows for Pen Computing, which claims the support of more than 120 software vendors and Penpoint from GO, a Silicon Valley company.

In addition, IBM is expected to enter the fray with a version of OS/2 for pen systems. "It is really a mess," says Mr Goldburg, who is nevertheless betting on Microsoft's Windows for Pen Computing, "providing they get their act together."

Certainly Mr Bill Gates, Microsoft's chairman, is betting heavily on the success of pen computing and has said he expects pen computing systems to be "the next generation of portable computers," because of their relative ease of use and accessibility.

Indeed, despite the market's disappointing slow start, most hardware manufacturers are pressing ahead with plans for pen-based machines and some have already delivered their first offerings. Among the first pen-based machines to reach the market were hand-held machines from Poqet, the Fujitsu subsidiary, and the GRiDPad from Victor Technologies.

NCR, the ATT subsidiary, has already introduced a successor to its original 3125 pen-based machine which was the first system based on Intel's 80386 microprocessor and Toshiba, the notebook computer specialist, has recently launched its first pen-based offering, the Dynapad T100X.



Fujitsu's new lightweight products include the Poquet PC Plus (left), a palmtop computer, the 325Point pen-based computer (centre) and the PoquetPad Plus portable computer

The Dynapad is a hand-held machine based on an AMD processor with a backlit LCD screen. It measures 10.6 by 8.3 by 1.5 inches and weighs 3.3lb and is likely to cost about £2,500. To circumvent the problem of the lack of a standard pen-computer operating system, Toshiba offers a "dual boot" facility that loads either Microsoft Windows for Pen Computing or the rival PenPoint 1.01 system developed by GO.

Some manufacturers have gone even further, providing transitional machines which cater for both pen and keyboard input. For example, both the GRiD Convertible and AST's PenExec look and work like any other clamshell-type notebook computer with a keyboard. However, the screen is both a display and data input device which can be used as a writing surface by the unit's cordless pen.

In the handheld market Sharp, the Japanese electronics group, has launched an electronic organiser which for the first time uses pen technology. The IQ-9000 has a small keyboard and an electronic pen which can be used to activate the usual functions of an organiser on its touch sensitive screen.

But aside from these hybrids, two basic designs of pen computer have appeared: the tablet or clipboard and the palm-top. Clipboards are generally A4 size, weigh about 6lb, and are used just like a conventional pen and paper clipboard for collecting data or completing pre-defined electronic forms.

Several companies on both sides of the Atlantic have begun to use clipboard machines with specialist software or "vertical applications", to achieve cost savings in paper-intensive areas. The use of pen computers for this type of work could well prove a niche market.

But the biggest market share of any emerging pen-based computer market is expected to go to the hand-held palm-tops, the more sophisticated of which have been given the name "personal digital assistants" – although definitions of exactly what constitutes a PDA vary considerably.

The most eagerly awaited of these is Apple's Newton, which is due to be launched later this year. Newton, measuring 7in by 4in, will feature a flip-up lid, an electronic pen which clips onto the side of the casing and handwriting recognition software.

Amstrad, the UK consumer electronics group, has announced the £299 Pen Pad, which it describes as a PDA: it is due to go on sale this month. Other machines are expected from EO, a US-based joint venture start-up, IBM and Motorola, Philips and Tandy.

One key limiting factor, however, for all these pen-based machines is the current state of handwriting recognition software. At present most systems can just about cope with carefully crafted capitals each entered in its own box, but are lost when it comes to reading cursive writing – which means that most typists, even the hunt-and-peck variety, can write more quickly with a keyboard.

For example, Amstrad's PDA needs to be "trained" to understand each individual user's handwriting before it can be converted into text and stored. Even then, each letter must be entered into its own individual box – although users will be able to store and recall electronic "pages" of their natural handwriting and drawings as well.

Several companies have been working on more sophisticated recognition software which they claim is able to recognise more than 80 per cent of cursive script.

Most typists, even the hunt-and-peck variety, can write more quickly with a keyboard

A technique called Freeman coding reduces each letter to a set of eight little arrows, known as vectors. Another system called CalliGrapher, developed by ParaGraph International, a Russian-American software company, concentrates on words rather than letters and is claimed to achieve mearly 90 per cent accuracy.

Both systems, however, still require training time, and need expensive and relatively bulky computing power which is difficult to fit into a hand-held machine.

But technology could once again eventually come to the rescue, delivering the low-priced specialised chips – and applications software – which pen computing probably requires if it is to match the aspirations of those who believe its time is still to come.

Joia Shillingford looks at the trend towards outsourcing

Benefits beat drawbacks

THIRTY-FIVE per cent of UK companies now contract out the management of their computers to a third party, compared with 25 per cent in 1992, says a survey by CMG Computer Management Group.

Outsourcing may be on the increase, but just how safe and satisfactory is it for the company's computers? Some consultants urge caution. Ms Judith Wainwright, of management consultants Pagoda, says: "While contracting out information services has proved effective for some, there is a growing body of experience showing that there are traps for the unwary."

These traps can include:

□ **Falling quality.** The in-house IT department may provide services to the business on an ad hoc basis, such as working late to help solve problems or providing informal advice. Such services will be lost if they are not covered by the outsourcing contract.

□ **Rising costs.** This can happen in two ways. First, numbers of in-house IT staff may rise, perhaps to compensate for falling service levels. According to Ms Wainwright, this can lead to a number of "mini-IS departments". Second, the supplier may use changing requirements as an opportunity to improve margins on a captive customer.

□ **Loss of flexibility.** Companies choose their outsourcing supplier according to what their needs are today. Yet their future needs may be very different. Moreover, there is no guarantee that the supplier's service will develop in the way a particular customer wants – it has to consider all its customers' needs, not just one.

□ **Poor security.** Many companies fear that their data will not be as secure if their computers are managed by an outside supplier. However, Mr Paul Hopkins, sales and marketing director at Sema Group Facilities Management, says: "Outsourcing can be just as secure as keeping data in-house, perhaps more so. Audits, security software and confidentiality agreements all exist to help here, and contracts can be written which specify financial penalties if the supplier lets data fall into the wrong hands or security agreements are breached. Most outsourcing organisations will also let their customers' auditors check that their security arrangements are satisfactory."

□ **Lack of control.** Some IT activities are critical to the business; if these are badly managed a company can lose control of its future.

□ **Vote of confidence from users.** Despite the potential risks, those who actually use outsourcing have far fewer doubts about it than non-users. For example, 50 per cent of non-users surveyed by CMG felt that facilities management would lead to a loss of control over IT. But only 14 per cent of users expressed this concern.

Similarly, 48 per cent of non-users thought that the FM supplier would not understand their business, while only 17 per cent of users identified this as a concern.

□ **Benefits.** In fact, many companies which have opted for outsourcing are experiencing a number of benefits:

- Seventy-seven per cent of users who responded to the survey say that it has enabled them to concentrate on their core business.
- Seventy per cent say that it has helped them to reduce headcount. (The proportion of outsourcing contracts which involve transferring assets and/or IT staff to the supplier is increasing.)
- Almost half said that it gave them greater financial control over their operations.
- Over half (56 per cent) reported cost savings, while 29 per cent reported no change in costs. Only 15 per cent of users said their costs had risen as a result of using FM.

□ **Crossroads FM.** Facilities management can also help companies which are changing IT direction, but need someone to run their existing systems while they plan the change. For example, when it decided to move away from its centralised mainframe strategy to smaller IBM systems, Imperial Tobacco signed a facilities management contract with Hoskyns, the UK computer services and FM company owned by Cap Gemini Sogeti of France. Mr Robert Dyrbus, finance director of Imperial Tobacco, reckons that the entire new installation (completed in 1991) cost just over £2m, including the fees paid to Hoskyns. This compares with Imperial Tobacco's 1987-88 DP budget of £15m – with £10m allocated just to run the mainframe.

But Mr Peter Falconer, associate director of Hoskyns, says that as the market matures, crossroads FM accounts for a smaller proportion of the company's new business – down to 20 per cent from 60 per cent of new FM contracts two years ago. He says most companies now sign three-year or five-year FM contracts because they have made a strategic commitment to changing the way they manage IT.

□ **Looking for a partner.** Another sign of a maturing market is that customers are getting more demanding. Forty-five per cent told CMG that they would like to see their outsourcing arrangements turn into a form of partnership. This is starting to happen. For example, Electronic Data Systems, the computer services subsidiary of General Motors of the US, has reached agreement in principle to take over the management of IT at Sweden's KF co-operative conglomerate. If the deal goes ahead in June, it will be worth $1bn over 10 years and involve a form of partnership (or "co-sourcing") between the two companies.

CMG's research shows that for existing users, the benefits of FM far outweigh the drawbacks. Nevertheless there were complaints. Over a third of users say there have been "difficulties defining the boundaries of responsibility" and slightly less than a third complain of "poor management by the supplier" and "loss of in-house expertise".

The writer is editor of Business Computing Brief, the FT newsletter.

MULTIMEDIA: ONE MORE MILESTONE

Testing limits of silicon chips

MULTIMEDIA looks set to move from being a niche market to becoming a part of the mainstream computer industry, writes George Black.

This could give the industry the new lease of life it needs after a recession. Leading personal computer makers and software package suppliers are keenly supporting the development of multimedia because they see it as the best hope of sustaining their growth.

Many users look forward to new applications that combine media such as word-processed text, CD-ROM (Compact Disk Read Only Memory), graphics, video, photography and audio.

Banks would like computer files on their customers that include photographs, signatures and perhaps recorded interviews. Architects, estate agents, engineers and planners would all like to be able to show their offerings on a screen, or even to give a guided tour in "virtual reality" headsets.

There are masses of prospective users in other sectors such as aerospace, retailing, security, education, the police and television.

The accusation that multimedia is a technology looking for applications could not be more wrong. But to become universal, multimedia has to come down in price and bring together several emerging technologies. Although the principles of the individual technologies have been mastered, getting them to work together effectively calls for a lot more effort.

The biggest drawback for prospective users in the present economic climate has been the cost, but the sharp fall in the price of personal computers is helping. The market may soon reach the point where falling prices and growing sales create a virtuous circle. The rapid spread of video-conferencing as a cheaper alternative to air travel is evidence that where multimedia is cost-effective there are plenty of customers.

The progress of multimedia depends on more processing power. Video and sound are harder for computers to handle than text and graphics, but users now expect instant response. The increase in power will come on the desktop through new chips such as Intel's Pentium, as well as through faster CD-ROMs, and in larger systems through what is known as "massively parallel" hardware.

But hardware makers are struggling to keep up with the demand for power. Mr Trevor Wing, marketing director for VideoLogic, multimedia products supplier, says processing video and sound will test the limits of the silicon chip. Today's advanced workstations labour to process video, he says. System builders will need to add new hardware to standard chips to cope with the volume of information in multimedia applications.

The rapidly falling cost of storage is making multimedia applications commercially feasible, but the capacity of storage devices can barely meet demand. While PCs have standard hard disks of 80-120 megabytes and standard CD-ROMs give 500 megabytes, processing the image of a newspaper could use 100 megabytes every day.

Formidable problems of indexing and retrieval will need to be faced

Multimedia will also stretch very large database technology. According to Mr Robert McCord, European development director for database vendor Ingres, the total volume of data held in databases worldwide could multiply 10 times by the turn of the century. Whereas data up to now has been measurable in gigabytes and terabytes, multimedia could need some new unit of volume not yet in use.

Formidable problems of indexing and retrieval will need to be faced. Multimedia vendors will be looking for bright ideas from developers of relational and object-oriented database management systems and hypertext searching software.

The recent move by Microsoft and Apple to modify their standard operating systems software so that video, sound and graphics can be incorporated into programs is seen by the industry as a big step towards creating a mass market for multimedia.

Before, it was too difficult and expensive for software houses to change the operating systems to connect them to multimedia applications. Now the software houses are hard at work to build on the adapted operating systems.

In the next year or two a new generation of software packages should include presentation systems using sound, video and graphics, aimed mainly at marketing departments and sales people.

Video quality has to improve; at present postage stamp-sized video windows give an acceptable image but anything larger tends to lose in smoothness. The cost is such that there is usually a trade-off between the size and the quality of the video. Add-in boards for video can be bought for £300, which should help the market to grow and make good quality cheaper.

Users will want also higher resolution displays. The PC now delivers 256 colours as an industry standard, which is good enough for many applications, but others will require even higher, television quality images.

By far the most popular application for multimedia is still training. The reason for this, says Mr Peter Copeland, chairman of the Sussex-based training company Futuremedia, is that it is both effective and cheap. Unlike class instruction, it can be tailored to the individual's needs. A 10-hour training course might cost £10,000, but the investment could be recouped in less than a year, he says.

Standardisation is one of the main needs of the business in the next couple of years. Microsoft has forged ahead with its own standards, but these may soon merge with the official standards being developed by the International Standards Organisation and the Consultative Committee on International Telephony and Telegraphy.

SOFTWARE METHODOLOGIES

Discipline that works

THE USE of formal design principles and rigorous management controls for building applications software has long been a controversial area in software development. The argument usually revolves around whether to use a formal software methodology or not.

A methodology – such as the Structured Systems Analysis and Design Methodology favoured by UK government departments – is a disciplined engineering approach to designing and building computer software.

Two diametrically-opposed schools of thought on methodologies have emerged: one argues that a formal approach to design and management is essential to ensure that the end product is satisfactory; the other argues that what really matters is the end result and it is not important how it is achieved.

In reality, both groups are right. In some areas rigorous design is essential. A large-scale corporate network system, which controls the everyday operations of a company, needs careful thought and is best built using formal software engineering principles. Infrastructural systems such as a worldwide fund's transfer system for a bank – or an airline reservation system – demand a disciplined approach to design and construction.

By contrast, a small-scale departmental information system, which gives its users a flexible way to get at their data and process it, does not require the same degree of formal design. A marketing information system for tracking product sales, for example, is best served by a quick and easy development method which involves close co-operation with the end-user.

Software methodologies have their origins in what are called "critical" systems in areas such as the military and aerospace. Such systems demand highly predictable systems and robust design and only rigorous methods can deliver these qualities.

All methodologies start from the idea that software is a product which can be "engineered" in the same way as a bridge or a motor car. They lay down procedures for gathering information about company data and the processes which transform it. Methodologies also help to enforce good design principles and management controls. In the last decade, these engineering design principles used to build "critical" systems have made the transition to the commercial sector, where the demand for better quality and greater flexibility in software has increased.

They have, however, had only limited success and many companies still do not use formal methodologies – though that does not mean their approach to software production is not "methodical".

"I don't believe there is an organisation without a methodology of one sort or another," says Mr Alan Cook, director of product marketing with the software tools specialist Softlab. "It might be informal – but they are using some method to develop software. They have to in today's complex technology environment."

The real issue is about discipline in development, says Mr Cook. "We are working in an engineering field and that demands discipline – standards and the like. This means we need somewhere to put information about the system being developed – a repository or data dictionary, for example. This acts as a starting point to give you a clear view of the company and its goals."

Mr John Peyton, European marketing director for Amdahl's Huron development system, agrees that development discipline is the important issue. "You need a way to get the best out people in development – they are, at the same time, the greatest asset and the weakest link," he explains.

"But formal methods can act as a barrier between IT staff and users – something which is not acceptable. This barrier reinforces the idea of 'us' and 'them' and we need to get away from this."

There are other problems with formal methods, Mr Peyton points out. "They are fine for systems which do not change – the infrastructural, operational applications, for example. But more and more systems these days must be flexible. They must be able to produce quick, demonstrable prototypes. Most methodologies struggle with this."

The growing sophistication of modern computer systems means that methodologies will probably apply only to software which is "under the covers" where it can make a useful contribution as an engineering discipline. As far as application development is concerned, however, methodologies will recede into the infrastructure and tools used to build software.

Phil Manchester